Treasury Board   Conseil du Trésor

GUIDE

ON FINANCIAL ADMINISTRATION FOR DEP
AND AGENCIES OF THE GOVERNMENT OF

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Guide on Financial Administration for Departments and Agencies of the Government of Canada

Second edition

Financial Administration Branch
Office of the Comptroller General of Canada

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Chapter 1
Introduction

1. Historical Background of the Guide

At the time of Confederation in 1867, the principles of financial administration that underly the British parliamentary system of government were firmly established. The concepts of a single consolidated fund, the cash basis of accounting, the annual limit on financial authority provided by Parliament, and the specifications of the purposes for which funds may be spent through appropriations, all provided proven foundations for financial administration that have survived to this day.

In 1921, the form of the Statement of Assets and Liabilities was reviewed by experts engaged by the Minister of Finance, and the principle of valuing only "active" assets was established, a principle that is still used to explain the presentation of this statement.

In 1931, the Office of the Comptroller of the Treasury was established as a means of remedying certain unsatisfactory financial practices that were found to be prevalent at the time, including the use of funds provided in appropriations for purposes other than those specified by Parliament and the lack of any current record of outstanding commitments. The Comptroller took over the financial staffs of departments and was made responsible for receipts into and disbursements out of the Consolidated Revenue Fund; for maintaining a record of all commitments chargeable to each appropriation; and for reviewing all expenditures to ensure that they were lawful charges against appropriations, that funds were available, and that they were properly authorized.

After 1931, the Treasury Board took action to standardize the vote structure, vote wordings, and the detail supporting the *Estimates*. It also became more active in giving central direction to departments and agencies on the manner in which they should exercise their financial responsibilities. By 1961, the system of financial administration was oriented to satisfying parliamentary and Treasury Board requirements. Its main characteristics included:

— a single consolidated revenue fund through which most revenues flowed;
— a standardized appropriation structure, with detail by standard objects of expenditure;
— within the appropriation structure approved by Parliament, a secondary control system based on allotments generally specified by Treasury Board in terms of objects of expenditure;
— a centralized and formal system of recording commitments in relation to each appropriation and allotment;
— an independent pre-audit of expenditures to ensure cash availability and the propriety of charges to the appropriations;
— standardized accounting and reporting systems;
— limited delegation of authority; and
— accounting on a cash basis, modified to a degree at the year-end.

Initiated by the recommendations in Volume I of the *Royal Commission on Government Organization,* the financial system was altered during the 1960s to better serve the needs of managers with operating responsibilities for carrying out government programs. This was done, within the constraints of existing legislation and organizational responsibilities, by encouraging departments and agencies to supplement their traditional systems with new systems that satisfied their managerial requirements.

Many of the legal and organizational constraints of the traditional system were removed in 1969, when the *Financial Administration Act* was amended to place primary responsibility for accounting and for budgetary and financial control in the hands of deputy heads of departments and agencies. The responsibilities of the Office of the Comptroller of the Treasury for the central accounts of the government and for the operation of the Consolidated Revenue Fund were transferred to the newly created Department of Supply and Services. Although this department continues to perform some of the former functions of the Comptroller of the Treasury on behalf of departments, it does so on a service basis.

As a result of the change from the control role of the Office of the Comptroller of the Treasury to the primarily service role of the Department of Supply and Services, departmental officers now have primary responsibility for making financial information visible, for rendering a proper accounting, and for applying reasonable standards of probity and prudence in controlling the expenditure of public funds. This shift in responsibility from a central agency to departments makes it necessary, more than ever before, for departmental officers to have a clear understanding of the financial responsibilities that Parliament has assigned to them.

It must also be recognized that the Treasury Board, the Receiver General, and the Minister of Finance have responsibility for the central accounts of the Government of Canada. In carrying out their responsibilities without unnecessary duplication, they must have assurance that departmental responsibilities are being satisfactorily performed.

A number of steps have been taken to ensure a clear understanding and a satisfactory performance of departmental responsibilities by Treasury Board under its legal responsibility for overseeing the system of financial administration in the Government of Canada. At the time of the amendment of the *Financial Administration Act*, the Board established a task force to review the plans of departments to cope with their vastly increased financial responsibilities. In 1971, the Treasury Board carried out a detailed evaluation of the financial practices of a sample of departments and agencies that indicated the need to update existing directives and guidelines to reflect the changes that have taken place since the previous policy and guide were first issued. In response to this need, the first edition of this guide (1973) was issued to provide direction and guidance to deputy heads and their officers on the manner in which they should carry out their respective responsibilities for financial administration.

2. Scope of the Guide

In this guide, financial administration includes:

classification of accounts. Identifying and designing the code of accounts used to classify and aggregate financial data.

budget preparation. Providing data for planning purposes; organizing and coordinating financial input to budgetary submissions; and analysing and providing advice on such submissions.

budgetary control. Preparing budgetary data for input to financial reporting systems; analysing expenditures and commitments and preparing cash forecasts; and analysing variance reports showing differences between planned and actual accomplishment.

financial reporting systems. Identifying the needs for accounting information; designing and maintaining reporting systems, including the design of reporting formats; preparing and distributing reports; and training recipients in the use of financial reports.

financial systems and controls. Satisfying the needs for accounting information by designing and maintaining accounting systems, including specifications for computerized systems; disseminating information on systems by means of training courses, manuals, and other means of instruction; controlling input of data to accounting records; maintaining accounting records, including all necessary analyses and reconciliations; designing and operating cost accounting systems; billing and accounting for accounts receivable and other revenue transactions; and accounting for inventories and other assets.

accounting and control. Verifying the accuracy, authority, and completeness of vouchers and other documentation supporting financial transactions; reviewing transactions to ensure approval by persons with delegated financial authority; exercising financial signing authorities; analysing proposals and documentation concerning contracts and grants and contributions, as a basis for decisions on payments; controlling and collecting accounts receivable; and exercising control over inventories and other assets.

financial audit. Independently appraising the efficiency and effectiveness of financial systems and procedures and the adequacy of internal accounting, financial, and budgetary controls; examining the propriety of completed transactions and their compliance with established policies and procedures; and conducting special-purpose investigations.

This definition is not intended to prescribe or limit the responsibilities of financial officers. Such officers should be an integral part of the management team of a department and should work closely with, not separately from, other managers in the planning, controlling, and reporting of a department's activities.

3. Use of the Guide

This guide is written to consolidate and amplify Treasury Board policy and regulations in the area of financial administration. The guide will be amended periodically to reflect changes in policy and regulations that have been approved by Treasury Board.

application. The policy and regulations apply to departments and agencies named in Schedules A and B of the *Financial Administration Act* and to branches designated as departments for purposes of that act. Copies of the guide should be available in each financial organization that has significant financial responsibilities.

cancellation. The second edition of the guide (1979) replaces the first edition (1973).

evaluation. Treasury Board staff will monitor and evaluate the effectiveness of the policy, compliance with the directives, and the degree to which the guidelines are accepted and applied. In addition, departments will be asked to submit reports to satisfy Treasury Board that they have complied with any new or amended policy.

enquiries. Enquiries on matters included in the *Guide on Financial Administration for Departments and Agencies of the Government of Canada* should be addressed to the Financial Administration Branch, Office of the Comptroller General.

Chapter 2
Policy, Principles, Objectives, and Responsibility for Financial Administration

1. Policy

Deputy heads of departments and agencies are responsible for satisfying departmental requirements and the requirements of Parliament and central agencies, as expressed in statutes, regulations, and other directives, for financial visibility, control, and accountability through the establishment, maintenance, and operation of systems of financial administration, which include:

— classifications of accounts that identify the purpose of, responsibility for, and nature of resources involved in each financial transaction;
— budgets that, in addition to forecasting cash requirements for inclusion in estimates, acknowledge managerial responsibility for costs in relation to planned output;
— reporting and budgetary control systems that compare actual and planned costs in relation to output, and actual and planned cash disbursements and commitments in relation to each appropriation, allotment, or other limit;
— financial systems that ensure the accuracy, completeness, and authority of cost, cash, and commitment data, and that safeguard cash and other assets;
— delegation of financial authorities by ministers and deputy heads in a manner that ensures an appropriate division of responsibilities in the disbursement and collection of public money; and
— audits that independently and systematically evaluate the design and operation of departmental systems of financial administration.

2. Principles Underlying Parliamentary Control

Principles in accounting are rarely fundamental truths; they are more often statements of generally accepted practices that are upheld because of their pragmatic value. It is primarily in this sense that financial principles are identified in this chapter.

By controlling the supply of funds to the government, Parliament attempts to determine the purposes for which the government shall spend funds and account to Parliament for what it has done.

The prime purpose of government accounting is to serve the requirements of Parliament and more particularly to ensure effective control by Parliament over public money. As parliamentary control in Canada is predicated on the operation of the Consolidated Revenue Fund, which is by law a cash account, and on regulating the flow of cash receipts into and cash payments out of the fund, it follows that the accounts of Canada are maintained basically on a cash system. This identifies the concept of a consolidated fund and the principle of cash accounting.

Another principle is the recording and valuation of assets and liabilities in the accounts of Canada. Assets recorded are the financial claims of the Government of Canada on outside organizations and individuals as a result of events and transactions prior to the accounting date. Liabilities recorded are the financial obligations of the Government of Canada to outside organizations and individuals as a result of events and transactions prior to the accounting date.

There are two other principles underlying parliamentary control that are explained in the following quotation taken from the United Kingdom publication entitled *Government Accounting: A Guide on Accounting and Financial Procedures for the Use of Government Departments*. This states:

> "It is a vital constitutional principle that all money granted by Parliament in any Session for the service of the Government, during that Session, be appropriated by act of Parliament to some distinct use to take place wholly or partially in the financial year in which the Act is passed."

This statement identifies:

- the principle of specifying through separate votes the purposes for which the funds are provided; and
- the principle of annual parliamentary appropriations.

Consolidated Revenue Fund

The concept of a single fund for receiving and recording all revenues and expenditures originated in England in 1787. Thus, by the time of Confederation, the concept was firmly established as fundamental to parliamentary control of public money. The *British North America Act* directs that all "duties and revenues" shall form one consolidated revenue fund, and the *Financial Administration Act* defines the fund as "the aggregate of all public moneys that are on deposit at the credit of the Receiver General". The intent was, if all cash flowed into the fund, with parliamentary authority being required for all payments out of the fund, parliamentary control would be fully effective.

Not all public funds flow through the Consolidated Revenue Fund. Some Crown corporations and a number of other bodies use separate banking facilities and produce their own accounts. The cash balances of these organizations are not reflected in the reporting on the Consolidated Revenue Fund.

Modified Cash Accounting

Because parliamentary control in Canada is predicated on regulating the flow of cash receipts into and cash payments out of the fund, it follows that the accounts of Canada are maintained basically on a cash system.

To achieve this objective, all accounting should be on a gross basis. However, exceptions have been permitted with respect to certain non-tax revenue. Parliament, through vote wording, permits receipts in these instances to be added to money granted in appropriations and to be spent for the purposes specified in the appropriations. This revenue may be either receipts recovered from other appropriations or from sources outside government. This practice results in parliamentary control being exercised on a net basis in these instances.

Revenues are reported on a cash basis, except for transactions between appropriations. Expenditures are permitted, under the *Financial Administration Act,* for 30 days after the end of each fiscal year to discharge debts properly applicable to the old year. There is no legal requirement for cheques to be issued within 30 days of the year-end to discharge debts applicable to the year, but departments should not be in the position of carrying over such charges to the following year.

There are other less recent modifications to the strict cash basis of accounting. First, from time to time a general reserve for possible losses on loans, advances, and other assets is created by a lump-sum charges to budgetary expenditures. Secondly, interest on the public debt is charged to budgetary expenditure month by month as it accrues rather than as it becomes due and payable.

In 1970, the change to bi-weekly payment of salaries led to a similar modification to the strict basis of cash accounting in order to permit the cost of any pay period overlapping the year-end to be apportioned on a pro rata basis.

The practice of utilizing revolving funds and loan accounts to finance departmental operations is a form of departure from cash accounting, even though the accounts of Canada continue to record only cash advanced or refunded. This is because the budgetary expenditures and revenues of the government as a whole do not reflect immediately the transactions that take place in these funds and advances. The budgetary accounts, using the example of a revolving fund to finance inventories, are charged only when the goods are withdrawn from stores and used in operations. This has the same effect on budgetary revenues and expenditures as if the basis of accounting were on the accrual basis.

Recording and Valuation of Assets and Liabilities

As stated previously, the Consolidated Revenue Fund is by law a cash fund. It is not generally conceived of in the more common accounting sense of a separate accounting entity and therefore does not provide the basis for the items reported on the Statement of Assets and Liabilities of the Government of Canada.

Not all assets and liabilities are reported on the Statement of Assets and Liabilities. In addition to the Crown corporations and other agencies whose cash transactions are outside the Consolidated Revenue Fund, revolving funds, and similar accounts are also separate accounting entities. The Statement of Assets and Liabilities shows only the outstanding balances due to or by the Consolidated Revenue Fund and not the

individual assets and liabilities of these separate funds. From an accounting viewpoint, the significance of this treatment is that the Statement of Assets and Liabilities does not produce a consolidated reporting of all assets and liabilities. Accounting for balances advanced to these separate funds is on a cost basis. The nature and value of these funds can be determined by referring to the separate statements of assets and liabilities that are provided in the Public Accounts for these funds and Crown corporations, and the underlying equity in Crown corporations can be determined by referring to a note.

Parliamentary Control through Appropriations

Parliamentary control has been traditionally exercised through the provision of funds by votes that, through their wording, limit the purposes for which funds may be used and that, through their amounts, limit the amounts that can be spent. The present rules for votes are contained in the *Program Forecast and Estimates Manual*, the two main rules being:

- there are one or more votes for each department, agency, or legal entity; and
- all the budgetary requirements for a program are gathered into one or more votes, with votes for capital expenditures and for grants and contributions, when either of these exceeds $5 million, being separate from the operating expenditures vote.

There are standard vote wordings, except where special authority is required. Thus, the main limitation provided in appropriation acts on the purposes for which funds may be spent, other than the standardized wording, is provided by the program name, which differs with each program. Additional limitations to those provided by appropriation acts may, of course, be provided for in the legislation governing specific programs.

Even though there may be alternative votes to which an expenditure might be charged based on vote wordings, the practice should be to charge an expenditure to the vote that corresponds to it in the *Estimates*.

Annual Provision of Financial Authority

Traditionally, Parliament has granted spending authority on an annual basis to ensure that at least once a year there will be an opportunity to obtain redress of grievances. The *Financial Administration Act* states that "All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year". Nevertheless, there have been a number of modifications to the strict application of this principle and, as a result, authority is granted annually for less than half of the government's total expenditures. The modifications permitted include statutory payments and the continuing authority granted when revolving funds are approved.

3. Objectives for Departmental Systems of Financial Administration

Departmental systems of financial administration should satisfy parliamentary and managerial requirements for financial visibility, accountability, and control. It is often argued that financial practices designed to satisfy managerial requirements are in conflict with parliamentary requirements, but throughout this guide, systems and procedures emphasize and demonstrate their compatibility. Budgetary, accounting, reporting, and control procedures are all part of a single system of financial administration, and these components must work together if the common goals of financial visibility, accountability, and control are to be attained.

Visibility

The first goal of any system of financial administration is to make visible all financial information that Parliament requires. This includes not only the information that is shown in the *Estimates* and *Public Accounts*, but all the components that produce the aggregate data that Parliament receives.

The appropriations identify those headings under which Parliament provides separate financial authority and expects to receive an accounting. Since these generally also reflect departmental programs that usually are managed separately, the appropriation structure is the starting point in making visible financial information for Parliament, central agencies, and departmental management.

Parliament is also interested in receiving information disclosing the portion of each appropriation that is utilized for administration, operation and maintenance, construction or acquisition of capital assets, and grants and contributions. This division is also of interest to management because of the different long-term significance of each of these items, and the various degrees to which they can be managed.

The supporting information in the *Estimates* provides Parliament with details of the costs of the major activities making up each departmental program, and details by standard objects the resources required to carry out each program. This dual presentation provides Parliament with a costing of each program in terms of both output and input.

Accurate data for Parliament in terms of activities and standard objects require detailed compilation within departments. Departmental management, and in some instances Treasury Board, also need to know the costs of the various operations, projects, and tasks, as well as the resources required to attain a program's objectives, if they are to allocate resources in a manner that produces the most effective and efficient course of action. By making fully visible the consequences of past decisions, managers can better plan for the future.

The size of most departmental programs dictates the need to delegate responsibility within a department, and therefore it is necessary to identify the resources required by and the activities assigned to each centre of responsibility. Only aggregate amounts are disclosed to Parliament, since the minister of each department assumes responsibility for the collective actions of his subordinates; internally, details by each responsibility centre are required so that the minister can discharge his collective responsibility.

While Parliament is provided with only limited detail, management at both the central agency and departmental levels needs financial data to plan, analyse, interpret, and report the events that are taking place. Figures that comply only with parliamentary requirements will fall far short of satisfying vital managerial needs. Parliament has granted departments greater flexibility in managing their financial resources by reducing the

number of appropriations. This does not, however, lessen the responsibility of departments to provide accurate and meaningful supporting information to Parliament.

Identification of any type of cost information is difficult, and completely accurate costs will always be elusive. The degree of accuracy in cost identification should vary directly with the importance of cost data to the users. Parliament does not need highly precise cost data, but it needs cost information that is prepared consistently, both between departments and from year to year, and it must have assurance that the cost apportionment in the *Public Accounts* matches that in the *Estimates*.

Management has a need for more detailed cost visibility, but managerial requirements will differ greatly, depending upon the nature of the program. For simple administrative operations, prompt processing of cash disbursements may be all that is required. For operations where financial resources must be managed closely on a periodic basis, period-end adjustments may be necessary to record non-cash transactions if the cost data, particularly unit-cost data, are not to be misleading. Finally, when trading or processing-type operations are involved, managers need to be able to trace costs on a continuing basis, and a revolving fund may be required to facilitate the allocation and re-allocation of costs.

Financial visibility involves more than selection of appropriate techniques; the chosen techniques must be applied in a manner that ensures the accuracy, timeliness, and authority of the data reported. A wide variety of financial techniques is required to ensure the credibility of the financial data that are produced for purposes of planning and accounting for financial resources.

Accountability

The requirement for financial accountability is closely related to that of financial visibility in that it centres around the identification of financial information in relation to each responsible manager. Departmental accountability to Parliament is primarily in terms of the data included in the *Estimates*, but when the authority granted by Parliament is delegated within a department, there must be adequate accountability before an aggregate accounting to Parliament can be rendered.

The financial resources allocated to responsibility centre managers must be carefully determined in relation to each activity element for which they have been assigned responsibility. This must be done in a way that ensures the manager's commitment to the budget and its constraints. An accounting must then be rendered that discloses each manager's actual performance in relation to the commitment accepted. Whenever possible, the accounting should show accomplishment in relation to costs consumed, as opposed to cash disbursed only. It is because of this that this guide distinguishes between traditional cash accounting and reporting systems, which are legally required by all departments, and other systems that provide an accounting on a cost basis.

Accurate accounting and reporting are of limited value if responsibility for results cannot be determined. If complicated and expensive cost allocation techniques are required to arrive at the figures reported, those seeking to evade responsibility may do so on the basis that such allocations are the creation of financial staff as opposed to operational staff and are therefore questionable. Assignment of organizational responsibility should correspond closely to the objectives to be attained, thus permitting meaningful financial reporting.

It should be noted that in government, managers are accountable not only for the aggregate manner in which they discharge their responsibilities, but also for the propriety of each individual transaction. Although the detail included in the formal accounting rendered through the *Public Accounts* to Parliament has been reduced, Parliament has the right to question the propriety of individual transactions.

Control

Financial control is closely related to accountability. The responsible manager is the focal point of any system of control, for it is the manager alone who performs those actions which result in expenditures and who can take corrective action. Financial control in government is manifested in a number of ways:

- Parliament appropriates funds on a cash basis, with authority lapsing annually. Controls must be exercised to ensure that disbursements do not exceed cash authority granted.
- Managers have assigned objectives and the resources for attaining them. Operational performance must be monitored by periodic comparison of planned and actual results.
- The requirements of probity and prudence dictate the need for an appropriate division of responsibilities so that the work of one employee independently checks the work of another. This type of internal control is necessary to ensure against misuse of delegated authority.
- Responsibility for custodianship of cash, inventories, accounts receivable, and other assets often has to be delegated. Through accounting controls, an independent check can be imposed on those who have custodial responsibilities.
- Finally, there must be adequate control over the financial system itself. By providing leadership and by evaluating and auditing those providing financial services, a standard that ensures the integrity and credibility of the system should be reached.

The interests of Parliament and of supervisory levels of management in a department are compatible if it is recognized that control is essential for accountability. The chain of accountability from the lowest level of responsibility to the minister and to Parliament can be honoured only if each level of responsibility has adequate means of controlling those to whom they have delegated authority. However, the control system must be designed to ensure that it does not so circumscribe a manager's authority that the manager ends up being relieved of responsibility.

Summary

This guide recognizes that primary responsibility for ensuring visibility, accountability, and control must rest with line management. Nevertheless, each level of management needs supporting staff to honour its responsibilities. The need to provide financial accountability upwards through a department requires that those providing financial services exercise a considerable degree of integrity. The guide seeks to identify the main responsibilities of those providing financial services, recognizing that such services are being provided on behalf of the manager being serviced, with the deputy head looking to the senior financial officer to ensure the adequacy of the service.

4. Responsibility for Financial Administration

The *Financial Administration Act* provides the statutory basis not only for most of the financial practices followed by departments and agencies, but also for the allocation of responsibility for financial administration. This allocation of responsibility is described briefly in this section.

Treasury Board

Treasury Board is provided with general authority to act in the area of financial administration on behalf of the government under section 5 of the act, which states:

5 (1) "The Treasury Board may act for the Queens's Privy Council for Canada on all matters relating to

(a) general administrative policy in the public service of Canada"

(c) "financial management, including estimates, expenditures, financial commitments, accounts, fees or charges for the provision of services or the use of facilities, rentals, licences, leases, revenues from the disposition of property, and procedures by which departments manage, record and account for revenues received or receivable from any source whatever".

5 (4) "The Treasury Board may prescribe from time to time the manner and form in which the accounts of Canada and the accounts of the several departments shall be kept, and may direct any person receiving, managing or disbursing public money to keep any books, records or accounts that the Board considers necessary."

In addition, Treasury Board has general authority to make regulations under section 6 of the act which states:

6 "Subject to any other Act, the Treasury Board may make regulations

(a) for the purpose of ensuring effective coordination of administrative functions and services among and within departments;

(b) for the establishment of general administrative standards of performance and respecting the assessment of the performance of portions of the public service of Canada in the light of such standards;

(c) respecting the collection, management and administration of, and the accounting for public money;

(d) respecting the keeping of records of public property;

(e) for the purposes set forth in subsections 11(3) and (4), section 14, subsections 26(2), 29(2) and 31(1), sections 35 and 53, and subsections 54(1), 70(3) and 98(2); and

(f) for any other purpose necessary for the efficient administration of the public service."

Under section 54 of the act, the Treasury Board has another form of general authority, namely to issue regulations concerning the manner in which the accounts of Canada are kept. This section states that:

54 (1) "Subject to regulations of the Treasury Board, the Receiver General shall cause accounts to be kept in such manner as to show

(a) the expenditures made under each appropriation;

(b) the revenues of Canada; and

(c) the other payments into and out of the Consolidated Revenue Fund."

In addition to the above, the sections of the act that give Treasury Board specific authority to issue regulations, as referred to in section 6, may be summarized as follows:

11 (3) To prescribe the form and manner of keeping records of receipts and deposits.

11 (4) To prescribe the manner of paying public money to the credit of the Receiver General.

14 (1) To prescribe the manner of holding and repaying deposits.

14 (2) and (3) To prescribe the manner in which public and non-public money may be returned or repaid.

26 (2) To prescribe the form of payment requisitions documentation.

29 (2) To govern the destruction of cheques and other instruments of payment.

31 (1) To authorize the making of accountable advances.

35 To authorize payment of contract holdbacks.

53 To govern the custody and control of public property.

70 (3) To prescribe the form of Crown corporation budgets.

98 (2) To govern the operations of the Public Officers Guarantee Account.

In addition to these regulatory powers, the *Financial Administration Act* gives Treasury Board authority to act in a number of other areas:

24 To establish allotments within each appropriation that shall not be varied without Treasury Board approval.

25 To prescribe the form in which commitment records will be maintained.

28 To direct the form and manner of authentication of payment instruments.

95 To authorize the retention or set-off of amounts due against any indebtedness to the Crown.

Treasury Board is also responsible for making recommendations to the Governor in Council in accordance with the following sections:

13 Fees or charges to be made for a service or use of a facility.

17 Remission of any tax, fee, or penalty.

18 Deletion of debts from the accounts.

52 Transfer, lease, or loan of public property.

Parts IX and X Assignments of debts due by and to the Crown.

Under part VIII of the act, Treasury Board has a number of other statutory responsibilities with respect to Crown corporations.

Minister of Finance

The general authority of the Minister of Finance with respect to financial administration is given in section 9 of the *Financial Administration Act,* which states:

> 9 "The Minister has the management and direction of the Department of Finance, the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other Minister."

In addition, the Minister of Finance has authority in a number of areas concerning the buying, holding, or selling of securities, management of the public debt, the form of the *Public Accounts*, and Crown corporations.

Receiver General

Section 6 of the *Department of Supply and Services Act* states that the Minister of Supply and Services is the Receiver General of Canada and shall exercise all the duties, powers, and functions assigned by law to the Receiver General.

Significant statutory responsibilities of the Receiver General are set forth in the *Financial Administration Act*. The Receiver General's responsibilities for cash receipts and disbursements are found in the following sections:

> 11 (1) "Subject to this Part, all public money shall be deposited to the credit of the Receiver General.
>
> (2) "The Receiver General shall establish, in the name of the Receiver General, accounts for the deposit of public money with such banks and fiscal agents as are designated by the Minister [of Finance]."
>
> 28 (1) "Every payment pursuant to an appropriation shall be made under the direction and control of the Receiver General by instrument, in such form and authenticated in such manner as the Treasury Board directs."
>
> 29 (1) "Every instrument issued under section 28, when paid, shall be delivered into the custody of the Receiver General for examination and adjustment with the statements of instruments issued."

The Receiver General's responsibility for the central accounts of the government are set forth in section 54, as follows:

54 (1) "Subject to regulations of the Treasury Board, the Receiver General shall cause accounts to be kept in such manner as to show

(a) the expenditures made under each appropriation;

(b) the revenues of Canada; and

(c) the other payments into and out of the Consolidated Revenue Fund.

(2) "The Receiver General

(a) shall cause accounts to be kept to show such of the assets and direct and contingent liabilities of Canada, and

(b) shall establish such reserves with respect to the assets and liabilities, as, in the opinion of the Minister [of Finance], are required to give a true and fair view of the financial position of Canada."

The Receiver General's responsibility for preparing the *Public Accounts* is set forth in section 55, which states:

55 (1) "A report, called the Public Accounts, shall be prepared by the Receiver General for each fiscal year. . . ."

Other responsibilities of the Receiver General cover the acknowledgement of assignment of debts due by the Crown, the recovery of public money improperly retained, and the offsetting of debts due the Crown against amounts payable by the Crown.

Department of Supply and Services

The responsibilities of the Department of Supply and Services for providing accounting and related services have, with subsequent directions, been established by the *Department of Supply and Services Act* (RS 1970).

7 (1) "The Minister shall provide such administrative and other services required for the disbursement of pay to persons employed in or by any department and to persons employed in or by other portions of the public service of Canada as the Governor in Council may direct from time to time.

(2) "The Minister shall provide such administrative and other services in relation to employee benefit plans and superannuation or pension plans as may be required of him from time to time by the Governor in Council.

(3) "The Minister shall provide, on the request of a department, any or all of the following services, namely:

(a) management consulting services;

(b) data processing services;

(c) accounting services;

(d) auditing services;

(e) financial services; and

(f) such other services of any kind as are within the duties, powers and functions of the Minister."

Auditor General

The responsibilities of the Auditor General are set forth in the *Auditor General Act*. The main duties of the Auditor General in the area of financial administration are covered by the following sections:

5 "The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act."

6 "The Auditor General shall examine the several financial statements required by section 55 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have."

7 (1) "The Auditor General shall report annually to the House of Commons

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

(2) "Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency; or

(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

(3) "Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting."

10 "Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board."

11 "The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought."

12 "The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board."

Departments and Agencies

The *Financial Administration Act* specifically assigns certain major responsibilities in the area of financial administration either to ministers or deputy heads of departments and agencies.

24 (4) "The deputy head or other person charged with the administration of a service. . . shall ensure by an adequate system of internal control and audit that the allotments. . . are not exceeded."

25 (1) "No contract or other arrangement providing for the payment of money by Her Majesty shall be entered into or have any force or effect unless the deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which such payment will be charged certifies that there is a sufficient unencumbered balance available out of such appropriation or item to discharge any commitments under such contract or other arrangement that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract or other arrangement was entered into.

(2) "The deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons shall establish and maintain or cause to be established and maintained on his behalf a record of commitments chargeable to each such appropriation or item in such form as the Treasury Board may prescribe."

26 (1) "No charge shall be made against an appropriation except upon the requisition of the appropriate Minister of the department for which the appropriation was made, or by a person authorized by him in writing."

26 (3) "No requisition shall be made pursuant to subsection (1) for a payment that

(a) would not be a lawful charge against the appropriation;

(b) would result in an expenditure in excess of the appropriation; or

(c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it."

27 "No payment shall be made for the performance of work, the supply of goods or the rendering of services, whether under contract or not, in connection with any part of the public service of Canada, unless, in addition to any other voucher or certificate that is required, the deputy of the appropriate Minister, or another person authorized by such Minister certifies

(a) that the work has been performed, the goods supplied or the service rendered, as the case may be, and that the price charged is according to contract, or if not specified by contract, is reasonable; or

(b) where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, that the payment is in accordance with the contract."

Chapter 3
Management of the Financial Function

1. Directives and Guidelines

Directives

- Each deputy head shall designate a senior officer to be responsible for departmental systems of financial administration.

- Financial officers shall design and operate systems of financial administration and exercise their functional responsibilities with a high degree of professional integrity.

- The senior officer responsible for departmental systems of financial administration shall give functional direction on behalf of the deputy head to responsibility centre managers and to subordinate financial staff of these managers to ensure that financial responsiblities are being properly exercised.

Guidelines

- The senior officer responsible for departmental systems of financial administration should:
  - as a member of the departmental executive group, advise the deputy head and his staff on the needs of the department in the area of financial administration and on the financial implications of their decisions both at the planning and operational stages;
  - advise on the application of legislative, regulatory, and other financial requirements of Parliament and central agencies to his department;
  - direct the design, communication, and maintenance of systems of financial administration;
  - provide guidance on the organization, staffing, and training of financial units capable of providing the financial services and functional guidance required by managers at all levels; and
  - review performance evaluations of financial officers throughout the department made by the managers to whom these officers report.

- Financial manuals, supplemented when appropriate by directives, instructions, and circular letters, should be issued and maintained to ensure that all participants in departmental financial administration clearly understand financial procedures and responsibilities.

2. Introduction

This guide is concerned with financial administration, not solely with those organizations directly providing financial services. Some aspects of financial administration are within the purview of responsibility centre managers and others are provided by functional specialists who advise these managers. Each department should appoint officers to whom the deputy head and other line managers can look for financial advice and who are responsible for ensuring that systems of financial administration are properly designed and operated. Such officers are a vital link in the structure of financial administration. They must carry out their duties with a proper degree of functional independence, so that the accountability of each officer to whom financial responsibility is delegated may be ensured.

The legal responsibilities for financial administration at both the central agency and departmental levels are identified in Chapter 2. This chapter describes the roles of responsibility centre managers and financial officers in departmental systems of financial administration as well as the organizational arrangements and methods of communication suitable for use by financial officers in the management of the financial function.

3. Role of Responsibility Centre Managers

As indicated previously, many aspects of financial administration are the responsibility of the responsibility centre managers to whom financial authority is assigned. The basic role of these officers is to manage the human and physical resources, for which they spend financial resources, to obtain output or benefits that are consistent with and contribute to the program objectives of the department or agency. They are called upon to perform this role in a manner that maximizes benefits and minimizes costs. The responsibilities of such managers in departmental systems of financial administration are discussed throughout this guide and are summarized below under their respective chapter titles.

Chapter 4, Classification of Accounts

— Identifying, within their areas of responsibility, the various projects, processes, and operations for which cost and output data can be meaningfully measured.

Chapter 5, Budget Preparation

— Forecasting human and physical resources for which finances are required in relation to planned accomplishment based on established performance criteria.

Chapter 6, Budgetary Control

— Ascertaining the causes of significant variances between planned and actual costs in relation to output.
— Initiating appropriate action in response to problems indicated by variances to adjust the level of resources, or to reduce costs, or to increase efficiency.

Chapter 7, Departmental Financial Reporting

— Informing financial officers of requirements with respect to format, content, and timeliness of financial reports.
— Utilizing financial reports in the management of their operations and reviewing the reports to see that they are in line with known events.

Chapter 8, Financial Systems and Controls

— Identifying the cost information required and verifying the bases of cost allocation.

Chapter 9, Accounting and Control of Expenditures

— Identifying the extent of delegation of financial authority required to enable lower levels of management to properly fulfil their responsibilities.
— Exercising delegated spending authority for entering into commitments, incurring expenditures, and confirming satisfactory contract performance under section 27 of the *Financial Administration Act*.

Chapter 10, Accounting and Control of Revenue and Accounts Receivable

— Ensuring that prompt billing action is taken when goods or services are provided on a fee-for-service basis.
— Participating with financial staff in setting billing rates.
— Assisting in the follow-up and collection of delinquent accounts receivable.

Chapter 12, Financial Audit and Evaluation

— Taking corrective action on audit findings and recommendations.

Responsibility centre managers are also responsible for directing the activities of financial staff assigned to support them. Their financial staff also receive functional direction from senior financial officers, who in turn are required to provide functional advice and support to responsibility centre managers.

Responsibility centre managers are primarily responsible for preparing evaluations of the performance of the financial staff whom they direct, although they should consult with the functional supervisors of their staff to the extent required and refer to them their evaluations, so that appropriate action can be taken to remedy weaknesses or to utilize strengths.

Responsibility centre managers may also be supported by functional specialists in the area of materiel management. Where this is the case, they should encourage a close working relationship between staff in the materiel management and financial administration functions. They must, however, recognize that as line managers they have primary responsibility for the efficient and economic custody and control of materiel in accordance with Treasury Board Management Improvement Policy No. MI-1-65, *Guide for Materiel Management in Government*, amended by T.B. Circular No. 1968-25.

Line management also has primary responsibility for the management of non-inventory assets and departmental liabilities. Financial staff can assist in these areas through the design and application of control systems, maintenance of appropriate records, and provision of historical and analytical information; but continuing reviews of the types and levels of both assets and liabilities in relation to operational requirements and departmental objectives should be carried out by line managers.

4. Role of Financial Officers

In any system in which authority is delegated, those delegating authority remain accountable for the actions of their subordinates. Thus, they must have assurance that the system of financial administration discloses the actions of their subordinates so that appropriate control can be exercised.

The growth of large organizations in the private sector has been facilitated by financial systems that disclose results to investors, creditors, and public authorities; by financial and other reports that receive greater credibility because of the statutory requirement for an independent audit; and by various financial techniques that enable control to be maintained over large, diverse organizations, often dispersed around the world.

Financial systems in government must operate with even greater probity, because managers are using public funds to provide services through equally large and complex organizations. The required level of probity may be achieved if financial officers in government perform their duties with integrity and independence, which will also give the systems credibility.

In providing functional guidance, financial officers are expected to demonstrate a high degree of professional competence in advising management on the acquisition and utilization of financial resources. They must also possess a high degree of professional integrity to ensure that prudence and probity are exercised in spending public funds and that a proper accounting is rendered on the utilization of financial resources.

Financial officers should be responsible for the areas described below, which are discussed at greater length under their respective chapter titles.

Chapter 4, Classification of Accounts

— Designing and keeping up to date a classification of accounts that provides a framework for gathering and making visible all the financial information that Parliament, central agencies, and departments may require on the purpose and nature of, and responsibility for, resources involved in departmental operations.

Chapter 5, Budget Preparation

— Coordinating and assembling financial data for use in preparing budgets, and ensuring that such data are reasonably accurate.
— Formulating guidelines for budget preparation. This includes providing appropriate instructions and identifying the following: types and levels of activity planned; constraints to be recognized; unit costs, costing formulae, forms, and methods to be used; and timetables to be respected.
— Reviewing budgetary submissions to verify costs and to ensure that all instructions have been followed.
— Converting cost-based budgetary requirements to net cash requirements for inclusion in estimates submissions.

Chapter 6, Budgetary Control

— Maintaining records to ensure that appropriation and allotment limits are not exceeded.
— Forecasting cash requirements.
— Assisting operational managers in analysing and explaining budgetary variances in terms of price, volume, and efficiency.

Chapter 7, Departmental Financial Reporting

— Designing and providing managers with financial reports that are simple, timely, accurate, and consistent, and that meet their needs for financial information, including information on budgetary variances.
— Coordinating and consolidating information for reporting in the *Public Accounts*.

Chapter 8, Financial Systems and Controls

— Designing and operating systems of accounting and internal control.
— Establishing standards and techniques for cash, commitment, accrual, and cost-based accounting.
— Identifying the needs for cost information and recommending and implementing techniques to generate it.
— Supporting management by analysing and interpreting cost information.
— Designing coding techniques that easily provide all the information required.

Chapter 9, Accounting and Control of Expenditures

— Identifying the need for and recommending appropriate delegation of spending and payment authority.
— Exercising payment authority under section 26 of the *Financial Administration Act*, with the attendant review of legality of payments and testing of statutory financial controls.
— Maintaining a record of and communicating all financial signing authorities granted by ministers and deputy heads.
— Maintaining financial control over inventories and other assets.

Chapter 10, Accounting and Control of Revenue and Accounts Receivable

— Claiming, accounting, collecting, and safeguarding all public money.

Chapter 12, Financial Audit and Evaluation

— Advising on the coverage and scope of financial audits.
— Acting on recommendations arising from financial audits.

In many instances, officers will not be assigned full-time financial roles and will be required to take responsibility for other administrative functions, such as materiel management, personnel, information systems, and administrative support services. This may be true both at the highest level, where the senior financial officer advising the deputy head on financial matters may have an "administration" title, and at the lowest level, where the officer may be known as an administrative officer or an office manager. It must be emphasized that, whatever their titles, officers performing financial responsibilities must accept functional guidance from those to whom the deputy head has delegated his responsibilities for financial administration.

5. Organizational Arrangements

The nature of financial organization within a department will depend upon the manner in which financial responsibilities are assigned to operating managers. Financial staff may be found at the following levels:

— the departmental level, to support the deputy head and those providing central direction or services in a department;
— the program level, to support the program head and his advisers and to interpret and apply departmental requirements in a manner that satisfies the unique needs of each program;
— the regional and district levels, whenever it is necessary to decentralize financial responsibilities to match operational and service requirements; and
— other responsibility centre levels, where assistance is often needed if managers are to play a vital role in the system of financial administration.

Responsibilities at each of these levels will vary, and this will be reflected in organizational relationships, as well as in the number and kind of staff required. In smaller departments, where operations tend to be centralized, the senior financial officer may be called upon to serve both the deputy head and the program managers. He would of course be aided by the necessary support staff of financial officers and clerks.

When financial staff are needed at program and field levels, few departments will place all such staff under the line direction of the senior financial officer. In such situations the senior financial officer should have functional, not line, authority over financial staff. This relationship is illustrated in Appendix A.

The responsibilities of financial organizations at various levels in a department are discussed in greater detail below.

Financial Organization at the Departmental Level

Each deputy head is required to designate a senior officer responsible for satisfying departmental systems of financial administration and for providing advice directly to him on all financial matters. Because there must be a limit on the officers reporting directly to the deputy head, this person may be an assistant deputy minister, finance and administration, for example, who in turn is advised by a director of financial services, a departmental comptroller, or some similarly designated individual. There are some dangers, however, in combining financial and administrative responsibilities. The most serious is that the officer filling such a position may fail to recognize the control aspects of financial administration when he has other responsibilities of a purely service nature. When financial and administrative responsibilities are combined, every effort must be made to avoid the danger of such an officer abdicating his responsibilities to his supporting advisers and thus becoming a barrier to communication of financial concerns between the financial officers reporting to him and the senior executive group.

The senior officer responsible for the functional direction of financial administration systems should:

— as a member of the departmental executive group, advise the deputy head and his staff on the financial administration needs of the department or agency and on the financial implications of their decisions, at both the planning and operational stages;
— advise on the application of legislative, regulatory, and other financial requirements of Parliament and central agencies to his department;
— direct the design, communication, and maintenance of systems of financial administration;

— provide guidance on the organization, staffing, and training of financial units capable of providing the financial services and functional guidance required by managers at all levels; and
— review performance evaluations of financial officers throughout the department made by the managers to whom these officers report.

Membership in the executive group recognizes the senior financial officer's role as a participating member of the management team. He must be totally familiar with and committed to the department's programs and must be willing to accept a share of the responsibility for their proper execution. Membership in the executive group allows him the opportunity to gain the support of top management for the financial activities that fall within his responsibility.

In departments that have financial organizations at the program level, the financial organization at headquarters should have minimal operating financial responsibilities. In addition to providing financial services to headquarters, the departmental organization should be directly responsible for the financial portion of departmental budgetary submissions, including appropriate financial analysis; for appropriation and allotment control; for consolidating departmental reports; for the design and implementation of adequate accounting and internal control systems; for acting as a final departmental court of appeal when financial transactions are questioned at lower levels; for identifying financial audit requirements; and for taking action to correct deficiencies indicated by such audits. The departmental organization should be establishing and evaluating financial policies, systems, and procedures. Financial operations should take place primarily at the program and field levels.

In most departments, the senior full-time financial officer should have a group reporting to him for each of the four following functions: budgetary preparation and control; accounting and reporting systems; financial controls and authorities; and departmental financial services. The groups dealing with the first three functions should be involved in establishing, communicating, and evaluating financial policies and procedures within their areas of responsibility; the group dealing with the fourth function is responsible for servicing these central units of the department not serviced by program or field financial officers. In smaller departments one group could be responsible for more than one function.

A vital element of an effective financial management system is trained personnel. Assessment of departmental financial training needs, and action thereon, is extremely important if those providing financial services throughout the department are to have their functional advice respected. In addition, the success of the senior financial officer and the staff under his functional direction depends to a great extent on their professional knowledge and on their ability to apply their knowledge to the operational and management environment of their department or agency. To discharge their responsibilities satisfactorily, they require basic qualifications in financial administration acquired through a combination of experience and formal professional training, as well as a good working knowledge of current developments in financial management in both the public and private sectors. Each financial officer should be prepared to contribute his own time and effort to his professional development, but departments also have a responsibility to further this development by providing formal and on-the-job training programs that meet the needs of both the individual officer and the financial organization.

Treasury Board and the Public Service Commission have recognized the requirement for formal training and development programs for financial officers and have developed courses in financial management suitable for both junior and senior financial officers. Departments are encouraged to utilize these courses as well as suitable courses available from other organizations. When planning the training of financial staff, the senior financial officer should not overlook the needs of junior or clerical staff. In addition, he should consider exposing some of his officers to courses in such areas as general supervision and management, quantitative analysis, and electronic data processing; although these courses will not necessarily contribute directly to the officers' immediate duties, they will broaden their perspective and prepare them for future assignments with greater responsibilities.

Training should be provided by all departments to responsibility centre managers to familiarize them with their financial responsibilities and with the financial services available to them. This is particularly important when major changes are being made in departmental systems of financial administration. When such training is provided by departmental financial staff, a good opportunity is provided for financial officers to obtain constructive criticism from line managers on the adequacy of financial systems.

Financial Organization at the Program and Field Levels

The heads of financial organizations at the program and field levels should have much the same relationship to the senior line officer they support as that which the senior financial officer has to the deputy head. They should be involved in interpreting and implementing departmental policies, systems, and procedures and adapting them to program and field requirements.

Program and field financial organizations will usually have extensive operating responsibilities. Responsibility for budgetary review, for appropriation and allotment control, and for review of budgetary variances should be placed here to support program managers. As the majority of a department's payment transactions usually occur at these levels, the program and field financial officers will usually be delegated payment authority and will be directly responsible for revenue and asset control.

Financial Organization at the Responsibility Centre Level

It is not likely that responsibility centres will have full-time financial staff unless they have major financial responsibilities. Consequently, financial duties at this level will be assigned to staff who support the responsibility centre manager in several functional areas. In the financial area, the supporting role will involve the following:

- assisting line managers in preparing budgetary submissions;
- analysing reported budgetary variances;
- reviewing expenditure transactions on behalf of officers with spending authority;
- maintaining records of outstanding liabilities and commitments and inputting them, at period end, to the financial reporting system;
- claiming, collecting, and depositing revenues and receipts; and
- other supporting matters as may be required.

Usually, such staff will not be given responsibility for appropriation and allotment control, nor will they be given payment authority under section 26 of the *Financial Administration Act*. Such responsibilities should be centralized at the program level at headquarters and at the regional or district level in the field to ensure a proper degree of functional independence.

Special care must be taken to establish clearly that supporting staff who provide financial services at the responsibility centre level fall under the functional direction of the senior financial officer when performing financial duties, and that the same degree of functional independence and integrity is expected of them as of full-time financial officers at higher organizational levels. Because of their close association with the managers they support, there may be a tendency on their part to regard themselves as part of line management. Care should also be taken to ensure that supporting staff at the responsibility centre level do not duplicate accounting and reporting efforts that are more economically and efficiently provided at a more central level. Financial practices at all levels should be subject to the same internal evaluation.

6. Communication of the System of Financial Administration

The efficient operation of a system of financial administration, with its long chain of events and transactions and its interdependence with other functions and operational activities of departments, can be achieved only if the requirements of that system are adequately communicated to all persons involved, including those outside the financial organization.

Communication from Outside Departments

Communication of the financial system starts with Parliament and the Treasury Board. Procedural requirements may be mandatory, as when prescribed in statutes, regulations, policy statements, directives, circular letters published under the authority of a Treasury Board minute, or in manuals such as the *Program Forecast and Estimates Manual*. Requirements that allow departments a choice of equally acceptable alternatives are included as guidelines. Certain matters that are the responsibility of the Minister of Finance may result in the issuing of circular letters or specific directions by the Department of Finance. Instructional material is also issued by the Department of Supply and Services with respect to the statutory responsibilities of the Receiver General.

Communication within Departments

Manuals

Within each department it is essential that many of the regulations, policies, directives, and guidelines issued by the central agencies be amplified to meet departmental legislation and operational and financial requirements, and that the resulting material be distributed throughout the department through a medium that has a proper status and form. The medium most likely to meet all the essential criteria is a manual. The superior feature of a manual over other media of communication is its continuity, which is determined by the procedures used to update it. When required, the manual may be supplemented by inserting in it directives, instructions, circular letters, etc. issued by branches and regions to meet the more specific requirements of individual program or field organizational components of the department.

The requirements of the financial administration system may be communicated throughout the department in a separate financial manual or may be incorporated into a comprehensive departmental manual. The latter is preferable, since it is likely to have greater acceptance in all areas of the department. In addition, separate manuals may differ in format, numbering, subdivision of subject matter, style, and nomenclature, all of which tend to make cross-referencing difficult.

Whatever their format, manuals should be issued under the authority of the deputy head. Responsibility for the financial administration content should rest with the senior financial officer of the department, who should approve passages in operational or administrative manuals that relate to financial policies, systems, or procedures, whether at the departmental or regional level.

Appendix B includes suggestions for the form and content of a departmental financial manual.

Other media

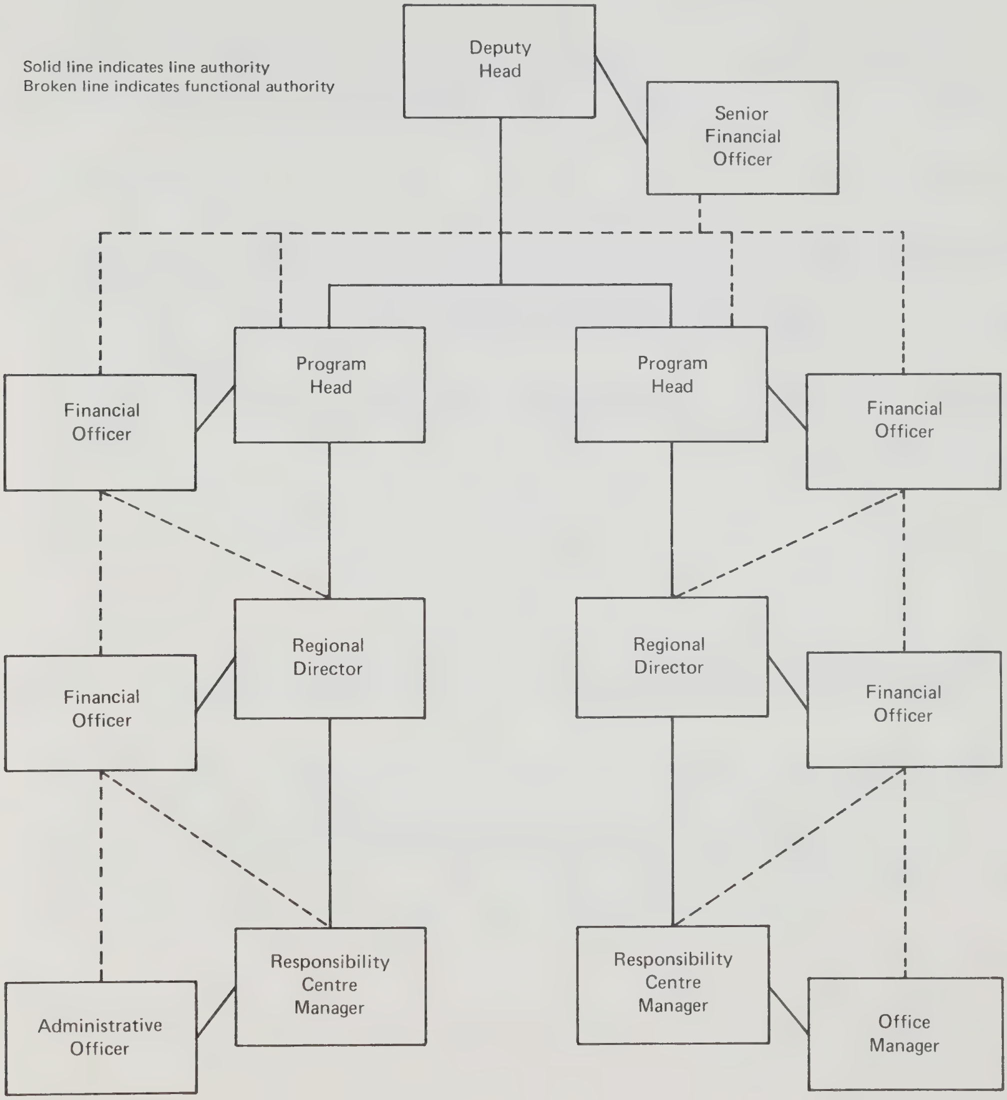
The manual should be the permanent compendium of all the basic financial systems and procedures of the department, but one or more forms of ancillary media may also be used to communicate temporary requirements.

In large departments with several different programs, where each program may be carried out by separate branches, each branch may be authorized to issue supplementary pages to the manual to cover its own specific financial procedures. Such pages should be distributed within the branch, with information copies provided to central organizations that require them. In some circumstances, departments may also find it advantageous to authorize regional management to issue supplementary pages to cover procedures required within a region. Such material should be reviewed by the central financial organization to ensure compatibility with departmental procedures.

Other media that may be used are directives, instructions, and circular letters. These should be regarded as temporary, and should not involve any elaborate procedures for circulating or updating them. A requirement to update a directive or instruction should lead to considering it for inclusion in the manual.

Appendix A Functional Authority of Financial Officers

Exhibit A
Illustration of Functional Authority of Financial Officers



Appendix B Suggested Form and Content of a Departmental Financial Manual

Form of Manual

Design objectives

— to facilitate quick reference;
— to provide the maximum degree of information and comprehension;
— to ensure content is relevant and current; and
— to ensure proper control over the distribution of amendments and addenda.

Recommended format

— loose-leaf type, to facilitate the incorporation of amendments and addenda;
— divided into chapters, to cover the main recognized divisions of financial administration, these chapters being capable of subdivision into sections and subsections as required;
— table of contents at the beginning of the manual, indicating the content of each chapter;
— table of contents at the beginning of each chapter, indicating the subject matter of each section and subsection of the chapter;
— chapters numbered, with subnumbering for the sections and subsections;
— pages printed in a standard format, showing the subject and number reference of each chapter section and subsection;
— pages and amendment lists sequentially numbered, indicating the total number of pages covering the subject matter;
— each page of amendments must indicate the date of issue; and
— new material must refer to what is being superseded, if applicable.

Chapter organization

To achieve consistency throughout the manual, a further division of subject matter could be made within each section or subsection. These divisions, which may be indicated by standard headings but need not be numbered, could include:

— authorities, covering references to relevant legislation, executive regulations, policies, directives, or guidelines on the subject matter concerned;
— policy, covering the department's own policy for implementing legislative and executive requirements;
— definitions, covering the interpretation of terms used in dealing with the subject matter;
— procedures, covering the practices to be followed by departmental personnel to achieve the objectives of the policy; and
— forms, covering standard forms to be used in carrying out prescribed procedures.

Style

Written material should be clear and concise so that it can be readily understood. In addition to narrative material, it is essential that there be well-chosen supporting illustrations. These illustrations should include items such as forms, flow charts, reporting formats, and organization charts and should be located adjacent to the relevant instructions.

Distribution

A key to the effectiveness of a manual is the efficiency of its distribution system. Such a system should include the following:

— written procedures for initial and subsequent distribution of the manual and for all amendments and addenda;
— careful selection of positions, rather than individuals, to which manuals will be issued, ensuring that manuals are not removed when incumbents of positions change;
— sequential numbering of manuals and maintaining a distribution record that shows the number of the copy issued to each position, to be used as a basis for mailing all amendments and addenda; and
— provision for re-examination and amendment of distribution records when reorganizations of positions occur.

Amendments and addenda

Manuals can be effective only if all copies in use are kept current. Procedures to ensure that this is done should include:

— transmittal of all amendments and addenda under cover of a distribution letter to be filed at the front of the manual after it has been acted on;
— an acknowledgement slip signed by the receiver and returned to the distribution centre;
— removal of the previous distribution letter from the manual, after confirming that the new distribution letter is the next in sequence to that previously filed:
— distribution, on an annual basis, of a checklist of the date of current manual pages:
— inclusion in the manual of any special procedures issued under the authority of some other medium as soon as the permanence of that procedure has been decided upon; and
— regular review of all material in the manual and of new material for inclusion.

Content of Manual

The content of a financial administration manual will vary considerably from department to department, according to the requirements of departmental programs and the manner in which they are implemented. It is expected that the following subjects would be included:

— description of the departmental system of financial administration, including its role in serving both departmental and government requirements;
— descriptions and charts of financial organizations, showing their relationships with other departmental organizations and identifying the financial administration responsibilities of both financial and line officers;
— scope and execution of functional direction;
— charts showing approved delegation of financial signing authorities;

- planning and program forecast procedures;
- estimates procedures;
- budget allocation procedures, including interim supply and budget change procedures;
- commitment records and procedures;
- cash forecasting procedures;
- code of accounts and coding procedures;
- methods for verification of accounts and requisition of payments, with special procedures for such items as travel and removal claims, special program payments, and journal vouchers;
- instructions for accounting control of inventories, equipment, and other assets;
- procedures for accounting control of revenues and receipts, including interdepartmental settlements;
- financial reporting and variance analysis procedures;
- description of financial management information systems and performance measurement; and
- contact and exchange of ideas with financial and external audit groups.

In addition, most departments will need to cover one or more of the following as required by departmental programs:

- cost accounting for products and services;
- revolving funds and special accounts;
- grants and contributions;
- federal-provincial financial arrangements; and
- loans and advances.

Chapter 4
Classification of Accounts

1. Directives and Guidelines

Directives

- Within each appropriation approved by Parliament, the departmental classification of accounts shall be a threefold classification:

  — first, by activity element, to make visible the costs of obtaining the output or benefits to be derived from expenditures;
  — second, by responsibility centre, to identify who is accountable; and
  — third, by object of expenditure, to provide a means of controlling the acquisition and utilization of resources.

- Departmental activity classifications shall be subdivided to the point where the basic or lowest levels, the activity elements, identify the costs of the processes and/or projects that are carried out to attain a program's objectives. This is to ensure that financial information is available whenever there is an identifiable output to which costs can be usefully and meaningfully related for determining cost effectiveness and efficiency.

- Departmental objects of expenditure shall be capable of aggregation to the reporting and standard objects designated by Treasury Board and to the economic objects required for government-wide statistical purposes. Data on objects of expenditure are required not only for managerial control at the operating level, but also to facilitate cost and economic analysis by Treasury Board and other central agencies.

- To ensure effective control and disclosure of information, the departmental classification of accounts shall make provision for recording assets and liabilities, even though such assets and liabilities may not be accounted for in the central accounts nor appear in the Statement of Assets and Liabilities of the Government of Canada.

Guidelines

- The activities and subactivities that are submitted to Treasury Board for approval for use in Program Forecast and Estimates submissions should be capable of being accurately costed by aggregating activity element costs, without arbitrary allocation techniques. This is to ensure that the activities and subactivities are satisfactory for purposes of control and accountability and that they provide an accurate foundation for supplementary analysis.

- Administrative activity elements should be included as part of the programs and activities that they support whenever there is a direct, accurate, and objective basis for cost allocation. When they are included in a program, they should be identified on a consistent basis so that the aggregate cost of significant administrative operations or processes can be computed.

- The responsibility of managers should be clearly assigned in terms of activity elements so that financial accountability coincides with operational responsibility.

2. Introduction

In accounting systems, the classification of accounts determines the manner in which financial data are identified, aggregated, and reported for planning, resource allocation, management control, and results evaluation. In government accounting, the development of a classification of accounts is dictated by two requirements: first, there is a need to provide data in the form required for presentation in the central accounts of Canada, and second, there is a need to provide the detailed information necessary at the departmental level.

No single classification system is capable of providing for all these requirements, but this problem is overcome by the use of a multiple classification system, and multiple levels of detail within each classification system, for the same data. It is now relatively easy to retrieve and report data in a number of different ways, provided that individual transactions are properly identified.

The first directive for a breakdown of accounts calls for a threefold classification:

— an activity classification to identify the purpose of transactions;
— a responsibility classification to identify responsibility for transactions; and
— an object-of-expenditure classification to identify the nature of the resources acquired.

The activity classification provides a breakdown of the costs of each program by activities, subactivities, etc., to the level of the basic activity element, where the operations, processes, services, projects, tasks, etc., are identified, all of which in turn identify at various levels of aggregation the purposes for which funds are spent to attain program objectives.

The responsibility classification ranges from the highest level of managerial responsibility, where a single officer is responsible for a program, to progressively lower levels of delegated responsibility, thereby identifying who is responsible and accountable for spending funds provided by Parliament.

The object-of-expenditure classification identifies the type of items on which expenditures are made—e.g. the input of goods, equipment, and services purchased for the operation of the program—ranging from standard objects to reporting objects and departmental objects, the last being translatable into economic objects for the purpose of socio-economic analysis.

This threefold classification is linked by an integrated coding system that requires each transaction to be so identified, thereby facilitating analysis of financial data and making it possible to move from one category to another. For example, a responsibility centre expenditure can be identified by activity elements contributing to the program's objectives and by departmental objects. Similarly, departmental objects can be identified by their allocation to responsibility centres and by their use in carrying out activity elements. Finally, the activity elements necessary to attain a program's objectives can be identified by the responsibility centres to which they are assigned and by the departmental objects required for their attainment.

The relationships between these classifications are indicated in Appendix A.

The three classifications described above culminate in a departmental program, which provides the basis for the vote structure through which Parliament appropriates funds for use by departments. Each departmental program must consist of at least one parliamentary vote.

The departmental program is also the link between the departmental classifications and the functional classification of government expenditures adopted by Treasury Board for use in allocating resources. This functional classification, which consists of three levels identified as functions, subfunctions, and functional

programs, is further described in Appendix A of the *Planning, Programming and Budgeting Guide*. It should be noted that a departmental program does not always fall within a functional program; some departmental programs are apportioned among functional programs to permit functional data to be disclosed more accurately than would be possible if each departmental program had to be allocated in its entirety to a single functional program. Since a program is a group of activities that are directed to achieving the objectives of the program, it follows that the clear identification of those objectives is fundamental to the design of the activity structure for each departmental program.

The next three sections of this chapter provide guidance on various activity, responsibility, and object-of-expenditure classifications. An additional two sections provide information on appropriate systems of classifying revenues, assets, and liabilities. A clear understanding of the nature and interrelationship of these classifications is essential to the operation of a system that will satisfy departmental needs for financial information.

3. Classification of Expenditures by Activity

Departmental Programs

A program is a major departmental operation designed to achieve specified objectives for the department that have been authorized by Parliament. A program should be:

— described so as to give Parliament, the executive, and management a clear view of its purpose and objectives;
— authorized by legislation;
— complete in all aspects so that its total cost can be determined; and
— capable of assignment, as far as possible, to a specific person who can be held accountable for achieving its purpose.

A program is the level at which Parliament votes funds. It can include operating expenditures, capital expenditures, and grants and contributions. Each departmental program is financed by at least one vote, but more than one vote is required when either capital expenditures or grants and contributions exceed $5 million. If more than one vote is required for a program, supporting information on all votes applicable to the program is presented together in the *Estimates* so that Parliament is aware of the total expenditures of the program.

Activities

The term *activity* is used to refer to the first division of a program. Since programs embrace sizeable areas of government operations and require the expenditure of many resources, details on programs are provided to Parliament in terms of activities.

A number of desirable attributes for activities are set out in the *Planning, Programming and Budgeting Guide:*

— the activity classification within a program must be designed to assist resource allocation decisions that are made within the department and outside the department by ministers as members of the Treasury Board and Cabinet;
— as the activities of a department are the headings under which the department should negotiate for funds with the Treasury Board, the headings must be as precise as possible so that requirements can be explained and benefits forecast;
— the activities of a department must provide the focus for planning in deciding how to achieve its program objectives independent of the organization used to execute it;
— in order to avoid having too many activities, each one should involve the largest set of projects or operations possible; and
— for the activity to be meaningful, the combination of projects or operations within it should be compatible.

In some programs, the primary division into activities can meet these attributes, but it is often necessary to further subdivide larger programs into subactivities or sub-subactivities before all the above criteria are fully met.

The primary division, which represents the activities disclosed to Parliament, should disclose information that is meaningful to Parliament, not operational details primarily of interest to departmental management. Nevertheless, unless the aggregate data can be related to the operations that take place, it is highly unlikely that the data submitted to Parliament will be meaningful or that the costs included therein will be sufficiently accurate to be relied upon.

Activity Elements

Departmental activity classifications must be subdivided to the point where the basic or lowest levels, or activity elements, are the processes and projects carried out to attain a program's objectives. This is to ensure that financial information is available whenever there is an identifiable output for which costs can be determined.

With the existence of cost data related to operational output, this level provides a basis for operational control and evaluation of efficiency. As the lowest level at which benefits can be quantified, and budgets therefore justified, it also provides a useful basis for aggregation. This is because operational outputs can be related to program objectives of interest at higher levels of management. Thus, activity elements may be thought of as the basic building blocks of the budgeting and accounting processes.

Some departments use the term *operations* to refer to processes, and *tasks* or *problem areas* to refer to projects. Normally, if both processes and projects exist within the same activity classification, a process will be an activity element that, together with a number of other processes (also activity elements), contributes to one or more projects that are aggregated at a higher level in the activity classification.

While the problems and expenses of cost determination and allocation at the level of the activity element must be taken into account, they should not dictate the design of the system. If output data to measure results are available, cost determination techniques should be developed to gather financial data. Even the absence of any final, measurable output should not negate this approach; in many cases an analysis of component tasks will identify areas of intermediate output for which indicators can be developed. In this connection, departments should recognize that when output is difficult or impossible to measure in terms of completed units of production, a suitable alternative may be to provide measures in terms of units of time applied to the productive process. Information on costs per person-hour, person-day, etc. is not generally as useful to management as information on costs related to units of product but it can contribute significantly to management's appreciation of the costs of operations.

The activity element, or basic building block, is particularly useful when the same process is carried on in a number of organizational units. It then becomes possible to develop work standards that can be used for both budgeting purposes and for operational control, and it permits the performance of responsibility centre managers to be compared. When costs can be related to output, it is also possible to provide convincing data for negotiating resource requirements.

Because activity elements may often be very fine subdivisions of a program, it is usually necessary to aggregate them at several levels before arriving at the activities disclosed in the *Estimates*. The best method of aggregation is not always easy to perceive, because many activity elements may contribute to more than one objective or subobjective of a program. The needs of departmental management and Treasury Board for meaningful levels of aggregation should dictate the system used. It should be recognized that while at any point in time a single classification may have to be settled upon for reporting to Parliament and to Treasury Board, this need not limit a department's ability to aggregate data in alternative ways. If activity elements are properly identified, multiple methods of aggregation should be possible. For example, a single project or process may contribute to several objectives. The activity element has to be classified within the formal classifications used by the department in submissions to Treasury Board, and this should be done in a manner that produces reasonably accurate aggregations of costs. This should not inhibit alternative methods of aggregation for purposes of departmental analysis and planning, which do not always need to be as accurately determined as the costs used in the formal classification.

Some examples of activity classifications are provided in Appendix A.

Administrative Activity Elements

Administrative activities referred to in this section are defined in Appendix C of the *Planning, Programming and Budgeting Guide* and include all those financial, personnel, electronic data processing, legal, and other services provided in support of departmental programs.

Departments vary in how they carry out administrative activities. In some departments administrative activities are centralized, while in others they are extensively decentralized, often resulting in a single administrative officer being responsible for the full range of administrative activities. These differences in approach make it difficult to compare administrative costs among organizations.

In most programs, administration is listed as a separate activity. Treasury Board does not at this time require or encourage arbitrary allocation of the cost of administrative and support activities to the programs and activities they serve. However, when administrative and support costs can be charged to a specific activity on a direct, accurate, and objective basis, departments are encouraged to do so. When this is the case, the basic administrative activity elements should be the same throughout the department, even though all administrative costs may not be aggregated to a single administration activity.

Treasury Board often requires departments to report administrative costs and other data periodically to obtain a comparison of costs among departments. The reporting requirements of Treasury Board will provide the minimum level of data that a department must have available, but departments should normally have greater detail available internally to control costs. For this purpose, departments should strive for consistently determined administrative costs within each program.

4. Classification of Expenditures by Responsibility

As stated previously, the achievement of a department's objectives requires a variety of operations to be performed. Operational tasks must be defined and assigned to managers who can ensure their effective execution. Clear assignment of responsibility is obviously important for many reasons, but it is particularly important for purposes of financial administration because it provides the framework for primary assignment of budgetary responsibility, for delegating financial authority, and for financial accountability.

Activity elements should be clearly assigned to responsibility centres so that financial accountability will coincide with operational responsibility.

The following basic rules should be observed in the establishment of responsibility centres:

— the responsibility classification for financial purposes should correspond to the official lines of authority in the departmental organization;
— each centre's responsibility should be clearly defined by the activity elements for which it is responsible;
— a responsibility centre may share responsibility for a single activity or may participate in more than one activity, but the extent of its contribution to each activity must be identifiable in terms of activity elements that can be costed; and
— no responsibility centre manager can be held equally accountable to more than one superior for the same activity, and thus primary responsibility must be recognized in the responsibility structure and distinguished from any functional responsibilities the manager may have.

Although cost allocation is easier when the responsibility classification and the activity classification are identical, this should not be the primary objective in design classification. The responsibility classification should be based on the best means of carrying out an organization's responsibilities. Often this reflects a grouping of skills or a desire to provide a common focal point for those being serviced. Organizational classifications should be designed so that responsibility centres have single purposes only when there are no compelling reasons to do otherwise.

In addition to responsibility centres, cost centres may be identified to satisfy the responsibility centre manager's needs for capturing costs and for evaluating operations of lower level organizational units. The main difference between responsibility and cost centres is that budgetary and spending authority are not delegated to staff at the cost centre level. A cost centre, for example, might be a small field location with limited need for financial flexibility.

5. Object-of-Expenditure Classification

In an object-of-expenditure classification, expenditures are classified according to the type of resources (goods and services) that are required for the operation of the program. At the lowest level of budgetary responsibility the managers must identify their financial requirements in terms of goods and services that are required to carry out their responsibilities. Object-of-expenditure information is less useful in meeting the needs of higher levels of departmental management. However, it is of value for budget review at the government level because it provides data on the effects of government expenditures on the national economy. The requirements of economic analysis on a national basis are satisfied through identification of detailed economic objects that, in conjunction with information from other sectors of the economy, make possible economic analysis of the effects of government spending.

Departmental objects of expenditure, sometimes referred to as resource codes, must be capable of aggregation to the reporting and standard objects designated by Treasury Board, and to the economic objects required for government-wide statistical purposes.

The highest level of aggregation, that is, by standard objects of expenditure and revenue, is identified in Treasury Board Management Improvement Policy MI-8-66. Its requirements are described in Appendix B. Standard objects are required to provide a minimum level of standardization in the reporting of resource requirements in the *Estimates* and the *Public Accounts*.

Greater detail on objects of expenditure is provided by reporting objects, for management purposes. A large number of departmental objects are grouped for this purpose. Reporting objects have been identified in the above policy, and different ones may be required for departmental management purposes, although the departmental system must be capable of reporting under the headings specified by Treasury Board.

Treasury Board also specifies economic object codes as a subdivision of the standard object and reporting object codes. These may be used by departments to identify their departmental objects.

Departments are free to designate any departmental objects but they must be able to identify expenditures by the standard, reporting, and economic object codes required to permit the comparison or consolidation of departments.

Departmental objects are the level at which all expenditures authorized by a responsibility centre manager will be coded, and they are therefore the basic building blocks of the object-of-expenditure classification.

6. Revenue Classification

Revenues obtained by government fall into five principal categories for accounting purposes:

- tax revenue;
- non-tax revenue, other than that identified in the three following categories;
- receipts credited to votes;
- receipts credited to revolving funds and special accounts with re-spending authority; and
- receipts credited to asset and liability accounts without re-spending authority.

Because revenues and expenditures fall into discrete systems of classification, the object-of-expenditure classification system is also used to classify revenues. As items are common to many departments, standard object codes have been introduced as follows:

- standard object 13—receipts and revenue credited to the vote
- standard object 14—non-tax revenue (receipts credited to revenue).

Reporting and economic objects are also prescribed by Treasury Board. The procedure for identification of departmental objects in these cases is the same as for the other standard objects of expenditure, and the same constraints apply. Whatever departmental objects are used by departments they must be capable of producing the detail required by central agencies.

Receipts available for re-spending, such as receipts to revolving funds, as well as receipts to asset and liability accounts, should be reported in such form as determined by Treasury Board for economic analysis and other purposes. The classification system used for internal reporting is not subject to any constraints, but in most cases information by various types of revenue will be required.

7. Asset and Liability Classification

Section 55 of the *Financial Administration Act* directs that the *Public Accounts of Canada* shall include "a statement. . . of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year", and under section 54 of that act the Receiver General is required to ensure that the accounts that are necessary for this purpose are maintained.

In the government's accounting system, assets are defined as claims by the Government of Canada on outside organizations and individuals, and liabilities are defined as financial obligations to outside organizations and individuals. Such financial claims and obligations are a result of events and transactions prior to the accounting date. The assets and liabilities recorded in the system are described in the *Public Accounts*.

Accounts receivable, inventories of materiel, and prepaid expenses are not accounted for in the Statement of Assets and Liabilities, and fixed assets are carried on the statement at a nominal value of $1.00. Thus, the classification of assets and liabilities found in the private sector has little relevance in government.

Although these assets and certain liabilities are excluded from the Statement of Assets and Liabilities, provision must be made for including them in departmental classifications of accounts. The need for accounting controls over inventories of materiel and equipment is explained in Chapter 9. In Chapter 10, a similar need to include accounts receivable in departmental records is outlined. When assets and liabilities are recorded by a department in its accounts, but not in the government's central accounting system, contra accounts can be used in the departmental system to exclude such assets and liabilities, so that agreement is maintained with balances in the central accounts.

Appendix A Examples of Activity Classification Structures

Introduction

Three of the more common forms that an activity classification may take are detailed hereunder. In all three, activity elements are aggregated into subactivities and activities in a manner that best reflects the contribution each makes toward achieving the objectives of the program.

Process-type Operations

Exhibit B illustrates the activity classification of a department that has activity elements that are ongoing operations. These take place in a similar manner in a number of organizational components of the department where the volume of output and nature of operations make project costing inappropriate.

The form of classification permits detailed costing of processes to provide a basis for comparison between district offices and to identify areas of improvement in any individual office. The component tasks involved in one process (e.g. manual handling, typing, key-punching, mailing) can also be identified in others for comparison and aggregation.

Project-type Operations

Exhibit C illustrates the activity classification of a department that has activity elements that are a number of unique projects, some of which may be continuing and others one-time operations.

The system provides for the costing of each project usually on the basis of resource inputs, because there are no standard processes for which costs can usefully be determined.

Combined Project- and Process-type Operations

For certain departmental programs, costing by both process and project may be feasible. Provided that the number of processes in which a department is involved is limited, it may be possible to identify the costs of processes as standard components of each project. For example, there are a number of standard tasks in statistical projects, such as planning, collecting data, analysing data, etc., and costs can be accumulated for each project by these standard operations.

This permits costs to be analysed by processes but aggregated by projects. Exhibit D illustrates this type of program.

Exhibit A

Structural Relationships of a Departmental Program

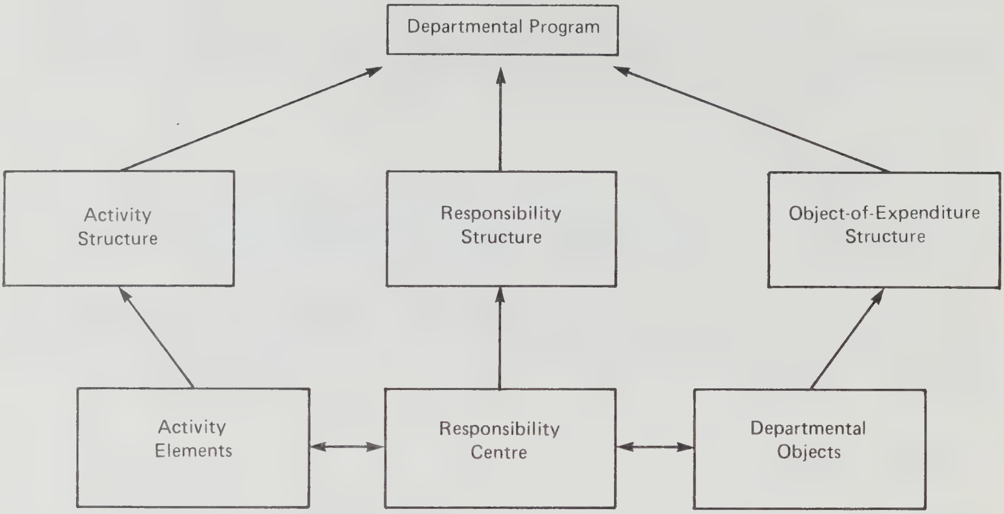


Exhibit B

Classification Structure: Process-type Operations

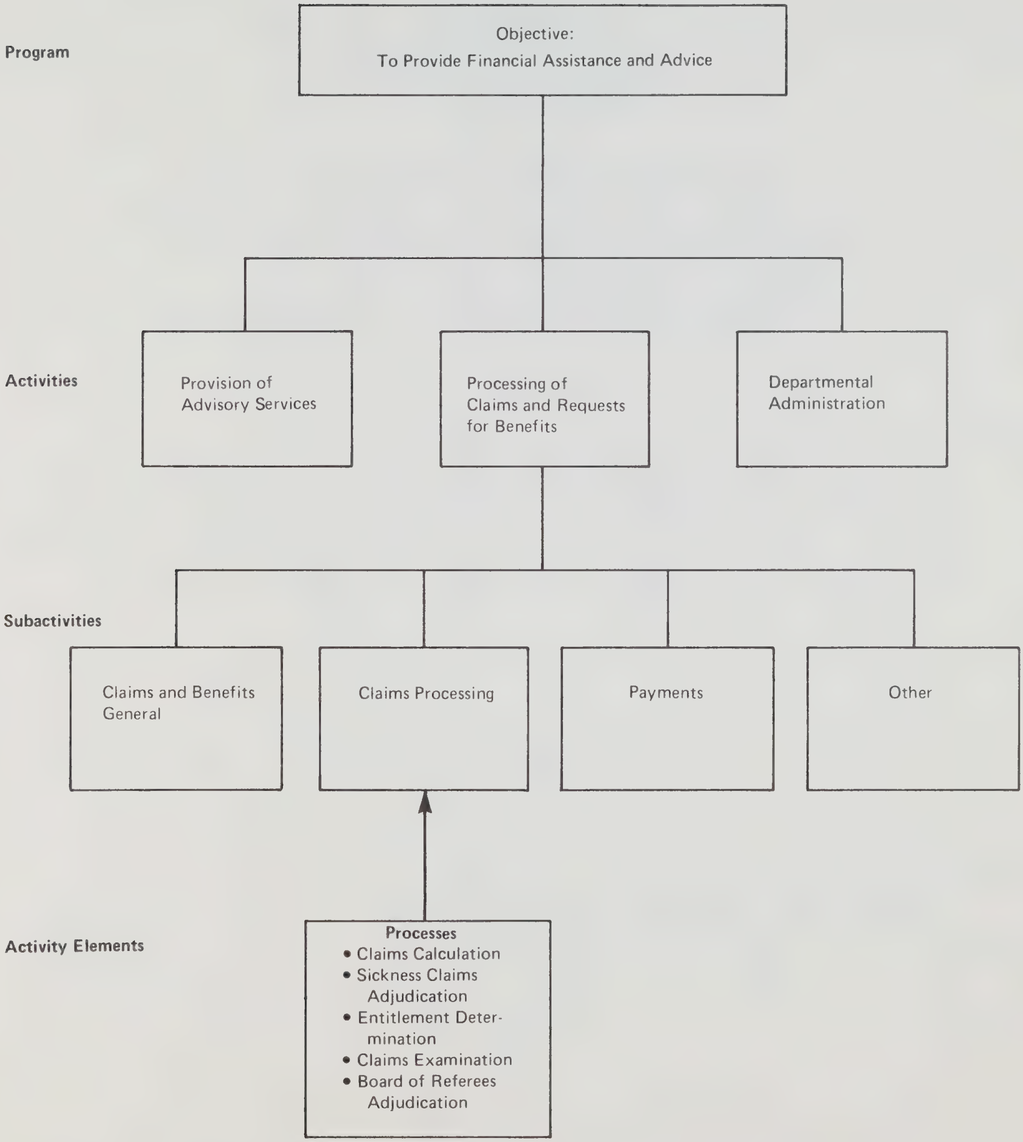


Exhibit C

Classification Structure: Project-type Operations

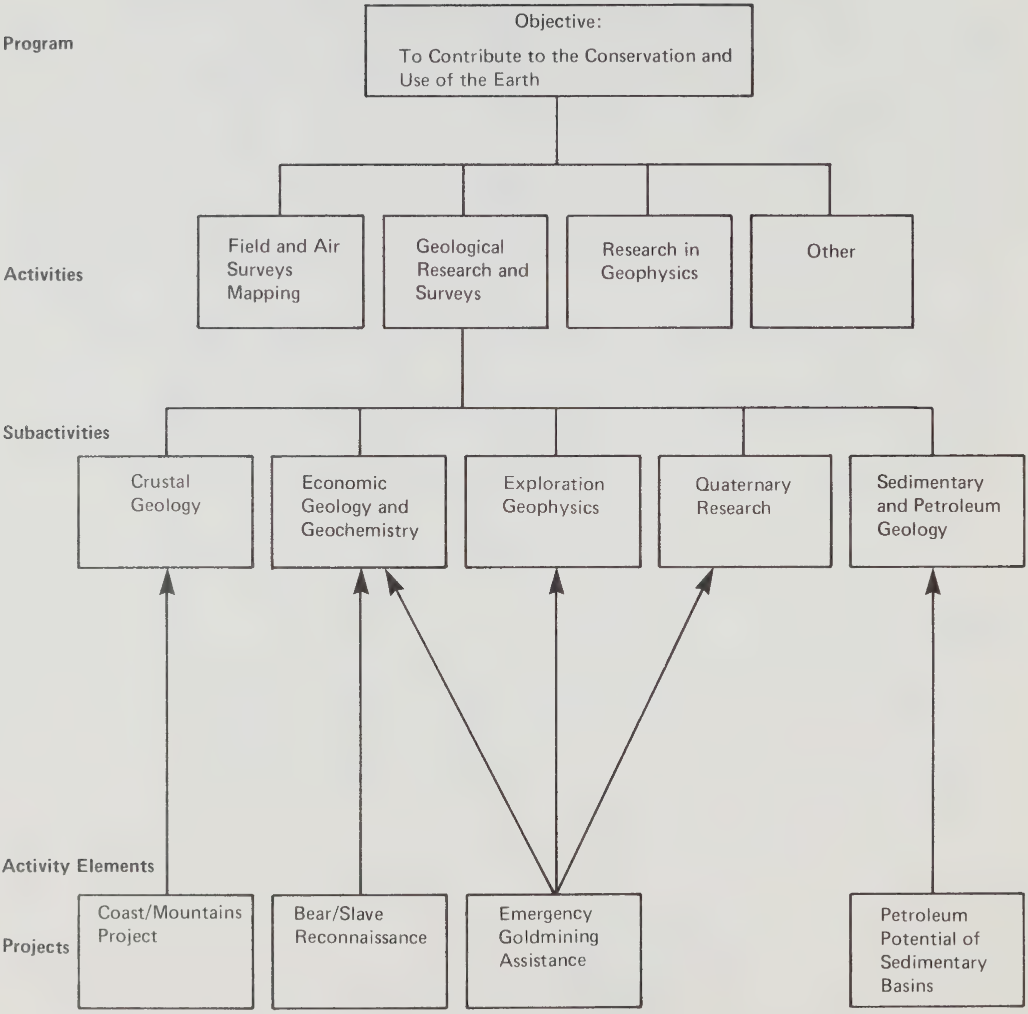
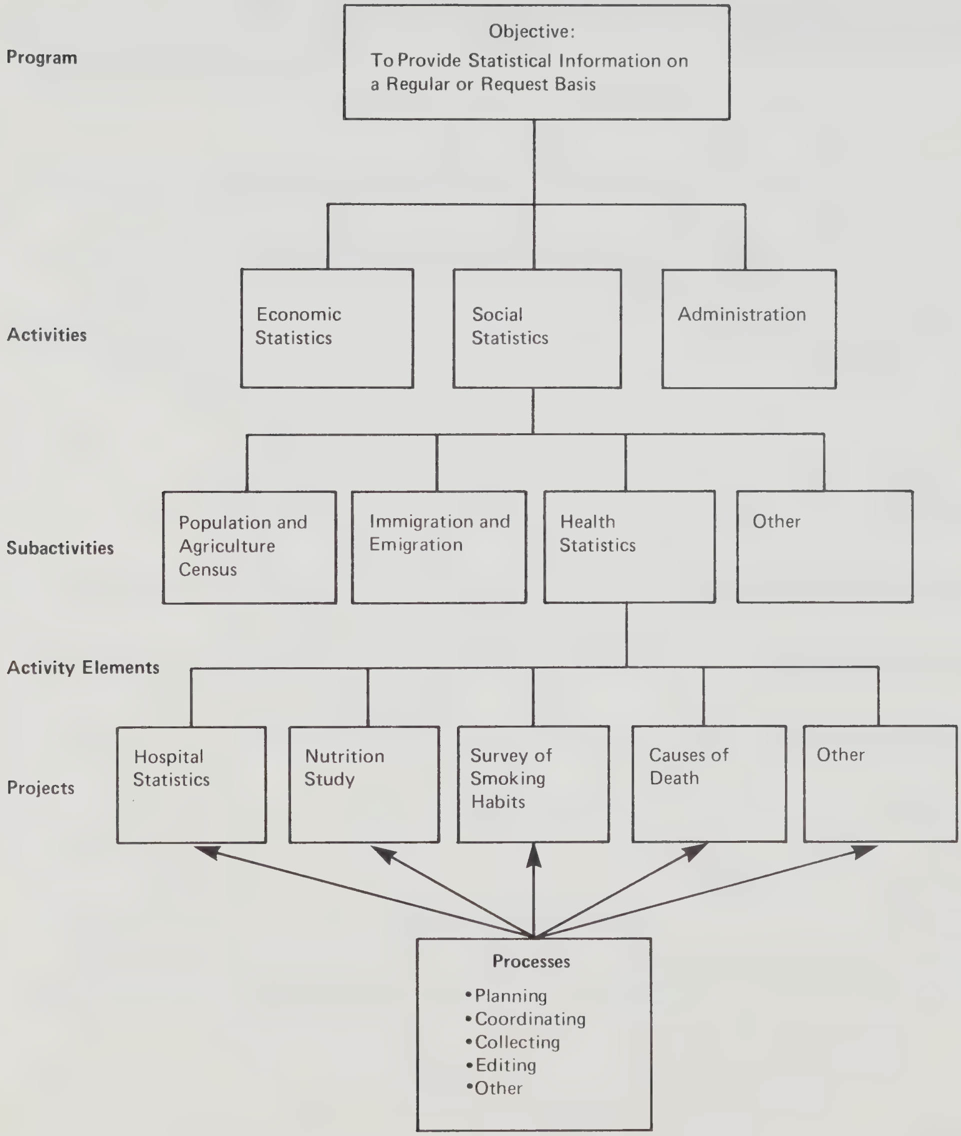


Exhibit D

Classification Structure: Combining Project and Process Operations



Appendix B Expenditure Coding System

Introduction

The expenditure coding system, as outlined in MI-8-66, is described hereunder. No changes of any substance are contained in this summary. The term *line object* as used hereunder is synonymous with the term *departmental object* found elsewhere in this guide.

Objective

The objective is to create standard subclassifications and codes for the financial information required for effective executive and departmental management as well as for economic analysis.

The expenditure coding system imposes upon all departments and certain agencies of government a uniform system of coding expenditures while still permitting flexibility in its adaptation to different circumstances of departments. The system is designed to meet the needs of all departments and agencies. For economy and efficiency it is important that departments make every effort to use the separate coding to meet the special needs of their own costing systems.

Definitions

coding. The identification of an item of expenditure by a series of digits arranged in fields.

field. One digit or a group of digits allotted for a specific purpose, e.g. vote, line object, activity.

coding block. The assembly of all coding fields where the total digits in each block cannot exceed 25.

object of expenditure. A classification of expenditure according to its nature, e.g. salaries, wages, materiel and supplies, construction. Objects are classified as follows:

— *line object.* A departmental classification of expenditure at the source. It is either coincident with the economic object or represents a subdivision of it.

— *economic object.* A classification required for economic analysis. It is identical to the line object or consists of a group of line objects.

— *reporting object.* A classification required for management control. It consists of a group of economic or line objects.

— *standard object.* A group of reporting objects for parliamentary and executive control, complementing the control through program budgeting by activity and responsibility centre.

— *asset object.* Derivative coding to identify capital formation that results from a department's use of its own resources (e.g. labour and materiel) on capital projects, including repairs whose cost is significant.

Expenditure and Revenue Classification by Objects

There are 14 standard objects:

1 Personnel
2 Transportation and Communications
3 Information
4 Professional and Special Services
5 Rentals
6 Purchased Repair and Upkeep
7 Utilities, Materiel and Supplies
8 Construction and Acquisition of Land, Buildings, and Equipment
9 Construction and Acquisition of Machinery and Equipment
10 Transfer Payments
11 Public Debt Charges
12 All Other Expenditures
13 Receipts and Revenues Credited to the Vote
14 Non-tax Revenue

The specific content of each standard object is outlined in a master list of objects of expenditure, which is divided into standard objects, reporting objects (which appear as a subclassification), and economic objects. The most recent amendment was issued in October, 1969, and can be obtained by referring to MI-8-66.

Before the end of February each year, departments are required to forward the following information to the Deputy Receiver General:

— the code number of each line object;
— the description of each line object; and
— the corresponding economic object.

It may be impractical for some departments to break down expenditures to the full extent called for by the economic objects. The use of data by economic objects is broad enough to permit relaxation of the principle of a one-to-one or many-to-one relationship between line objects and economic objects when the amounts are insignificant. In such cases departments will include, for these line objects, an estimated percentage breakdown by economic object. The Deputy Receiver General will thus be able to take totals accumulated for departmental purposes by line object, convert them to economic objects, and derive totals for the reporting and standard objects.

When receipts and revenues that fall under the same classification may be treated as a credit to a vote under one set of circumstances, and as general revenue under another, the last two digits of the economic object are the same for both standard objects 13 and 14.

Each department, agency, or division operating under a revolving fund must report revenues in total to the Deputy Receiver General. In some cases information on sales and purchases, as well as on opening and closing inventories, may be required in detail. Reporting criteria will be developed for each individual case.

The Coding System

The coding system is flexible, designed to vary according to the requirements of each department or agency. The system imposes certain minimum conventions, and the Deputy Receiver General will provide advice within the context of these instructions. It is based on three levels of objects of expenditure, i.e. line, standard, and reporting. No distinction is made for economic objects as they relate to line objects on a one-to-one or many-to-one basis. However, the economic object is a subclassification of the reporting object, as illustrated in the master list of objects of expenditure.

Rules

— No field required for a program, vote, etc. in any coding block will contain more than five digits, and the total of all fields will not exceed 25 digits.

— Fields for process control (cheque number, batch number, source number, etc.) and for purchase orders, work orders, etc. will be additional to and will follow the expenditure code fields enumerated above. Only the cheque numbers may exceed five digits.

— Departments involved in construction and repairs using their own resources (e.g. labour and materiel) will include at the end of the coding block a qualifying field designated as an asset object. The actual objects of expenditure used will be entered into the line-object field, and the type of asset affected will be recorded by entering the last three digits of the corresponding economic object in the asset field. These data are required to show capital formation in the national accounts.

— The names or purposes of coding fields, the maximum length allowed for each, and the order in which the fields must appear, are listed below. Explanatory comments contain some suggestions for the use of certain fields. Each classification area must be used for the designated purpose only. If a classification is omitted because it is not required, the remaining classifications must appear in the designated order.

Description of Fields

Name or Purpose of Field	*Digits*	*Comments*
Program	one or two	Required only if a department has more than one program. One digit will be sufficient in most cases, but two may be needed when there are several programs and revolving funds.
Vote	one or two	Required only if a department has more than one vote. Suggest one for operation and maintenance votes, two for capital, and three, four, or five for grants and contributions, as needed. One digit will usually be sufficient except when there is the necessity to code for several statutory votes or revolving funds.
Responsibility centre	one or two digits per management level	Required for as many responsibility fields as there are levels of management. One- and two-digit fields could be combined as appropriate. The first field is to be used for the highest level of management, the second for the second highest level, and so on. Staff responsibility centres will be coded at their appropriate level. For example, suppose:

(a) a department in which branch directors report to a deputy head, division chiefs to branch directors, and section heads to division chiefs; and
(b) that the number of branches is less than 10, that the divisions within any branch number more than 10, and that the number of sections within any division is less than 10.

Then, the responsibility centre coding would be:

Branch	Division	Section
X	XX	X

For coding purposes, the following is suggested:

- the immediate establishment of a deputy head be identified as a branch;
- the immediate establishment of a branch director be identified as a division;
- the immediate establishment of a division chief be identified as a section; and
- these immediate establishments be coded "1" or "01" as appropriate.

Name or Purpose of Field	*Digits*	*Comments*
		Thus, the responsibility centre codings for the deputy head's office would be: Branch 1 — Division 00 — Section 0 and for the director's office in a branch identified as code 6: Branch 6 — Division 01 — Section 0 There is no theoretical limit to the total number of digits to be used for responsibility centres except the general overriding limit of 25 digits for all purposes, except for whatever relief the use of the collator number may offer (see below).
Activity	one or two digits per activity level	Required unless activity coding and responsibility coding coincide. There would be as many fields as required for activity, subactivity, sub-subactivity, etc. One- and two-digit fields could be combined as appropriate.
Other financial control information	not more than five digits	To show specific financial control information, the nature of which varies from department to department. No single field of this type is to be more than five digits. The financial control area of the block could also be termed *miscellaneous,* since it is intended to accommodate requirements of individual departments not capable of convenient and consistent accommodation under the other headings, such as work order code, project code, province, and the like. Again, there is no theoretical limit to the number of such miscellaneous coding fields, although no one field may take up more than five digits. Nor is there any theoretical limit to the total number of digits in all such miscellaneous fields, the 25-digit overall limit and the collator number (see below) again being relevant to the issue.
Standard object	two	Nil.
Line object	not more than five digits	Required from all departments, in a one-to-one or many-to-one relation to the economic objects. This field must also be used to code revenue objects. It is suggested that a specific consecutive set of digits be set aside for revenue objects not falling under standard objects 13 and 14. For instance, when a four-digit field is used, the block 9,000 to 9,999 could be set aside for such revenue.

Name or Purpose of Field	*Digits*	*Comments*
Asset Object	three	Required when a department uses its own resources (e.g. labour and materiel) for capital projects, including repairs.

Collator Number

This policy statement is compatible with the use now being made by certain departments of a labour-saving device known as the collator number. The high order or left-most digits in the expenditure coding classification at a responsibility centre are usually the same no matter what the type of expenditure. All items tend to fall within the same program and vote. The entries in most of the responsibility centre fields (those at a higher level in the management structure than the responsibility centre to which the expenditure is charged) also tend to be the same. If, for example, the first 10 digits are always the same it has been found convenient to substitute a five-digit collator number for the 10. Later, in the data-processing phase, the full 10 digits may be generated as needed.

This device can reduce the amount of clerical work in coding and, since there are fewer digits, there will be fewer errors. Although the length of the coding block is still restricted to 25 digits for input purposes, the Operations Branch of the Department of Supply and Services, which processes the accounting data for most departments, has found that a limit of 40 digits within the system is practical. This means that a department could generate up to 20 digits with a five-digit collator number and specifically code another 20 digits. The two figures above are only examples. In such a case the collator number might generate program, vote, all levels of responsibility, and possibly all levels of activity. It is to be understood that the 25-digit limit applies to the amount of coding on any voucher, whether a collator number is or is not used.

Chapter 5
Budget Preparation

1. Guidelines

- Managers assigned budgetary responsibility should be involved in all aspects of the preparation of their budgets to ensure their commitment to them.

- Departments should issue budget guidelines to responsibility centre managers to initiate and direct the accurate and efficient preparation of budgets. Departments should also establish standard worksheets for each program to assist managers in preparing responsibility centre budgets, to ensure the recording and retention of basic budgetary data, and to facilitate the aggregation of financial requirements at higher responsibility levels.

- Budgets should be reviewed by management to ensure that they reflect departmental and program plans and constraints, that proposals are realistic and properly justified and that the method of computing budgeted costs, cash disbursements, and other data is reasonable.

- Responsibility centre budgets should be prepared whenever possible in three stages:

  — calculation of costs by activity elements based on anticipated output and using average unit costs for the program as reflected in the budgetary targets approved in the program forecast submissions;
  — determination of minimum costs by objects of expenditure for each responsibility centre, taking into account the effect of salary commitments and other costs that are fixed or semi-fixed; and
  — negotiation by each responsibility centre of variances from program averages to arrive at the centre's unit costs for each activity element, taking into account its ability to control costs.

- When it is not possible to utilize average unit costs, the costs of each activity element should be computed by objects of expenditure.

- Since costs computed for activity elements and objects of expenditure should reflect resources to be consumed, not cash needed to acquire resources, significant changes in levels of inventories of resources between the beginning and end of the fiscal year will distort costs, unless they are budgeted for separately. Departments should budget for anticipated changes in inventory levels as if they were separate activity elements, so that the aggregate costs of all activity elements will more closely approximate cash requirements included in estimates submissions.

2. Financial Planning

A budget in government serves three main purposes: the first is to determine the financial and other resources required to carry out the plans assigned to responsibility centre managers; the second is to obtain Treasury Board and parliamentary approval of departmental programs and resource requirements; the third is to provide a basis for budgetary control.

A planning, programming, and budgeting approach to resource allocation has been introduced by Treasury Board. The *Planning, Programming and Budgeting Guide* (1969) sets out the concepts and aims of the system, and the *Program Forecast and Estimates Manual* describes in greater detail the annual budgetary process and the form in which the program forecast and estimates submissions are required to be prepared by departments. This chapter seeks to ensure that departmental budget-preparation procedures are in consonance with the concepts detailed therein.

The preparation of the various program forecast submissions is normally carried out centrally and should be a joint responsibility of those responsible for planning in a department and those responsible for financial services. The planning staff should be primarily responsible for assessing and advising on program content and for providing supporting narrative for departmental submissions to Treasury Board. The financial staff should be responsible for coordinating, evaluating, and assembling supporting financial data and revisions thereto, and for ensuring that the financial data provided are reasonably accurate. Where the work is undertaken will depend largely on the organizational structure of the department and the manner in which responsibility for providing planning and financial services at the program level is assigned.

Program forecast submissions should be prepared centrally because their purpose is to establish the levels of funding appropriate for each program, taking into account competing demands for scarce funds. Whenever possible, responsibility centre managers should be freed from the burden of producing detailed budgets at the same time as program forecast submissions, since such budgets can be more accurately determined at a later date, when program issues have been settled, price changes are known, and the results of the current year's operations are at least partially available. This is not to say that responsibility centre managers should be ignored in preparing program forecast submissions; they will be the source of many of the proposals calling for new or altered programs.

Whenever possible, program forecast submissions should be computed by using unit cost data. Unit costs can be computed on the basis of past experience adjusted to reflect known price changes, on the basis of work measurement studies, or by combining both of these approaches. If unit costs have been identified, total financial requirements for each activity element can be readily determined once proposed ouput volumes are forecast. When unit costs are not available, trend projections will often produce just as accurate forecasts as computations by individual responsibility centres.

This chapter is primarily concerned with the process of preparing detailed budgets by responsibility centre managers. Detailed budgets are required to verify the cost forecasts used in the program forecast submissions and to provide a basis for allocating funds to the managers who will be responsible for spending the funds. Normally, these detailed budgets provide the basis for estimates submissions although some departments may prefer to prepare their detailed budgets later in the year, when the current year's results are more completely known. This latter course of action is feasible only when a department is confident that its requirements can be accurately forecast for estimates purposes without detailed budgets.

Financial resources are provided in support of approved programs on a fiscal-year basis. In addition to the program forecast, the full cycle of financial events related to providing resources includes the estimates procedures, expenditure control, and accounting to Parliament. The sequence of major financial events in a

typical department is illustrated in Appendix A and is based on the current deadlines for submissions as promulgated by Treasury Board. It also illustrates the timetable of accounting and reporting events required to complete the financial management cycle and indicates the relationships between cycles of successive fiscal years.

3. Departmental Estimates

Introduction

A department's total funds for the estimates year are approved by Treasury Board and Cabinet and are based on data included in program forecast submissions. The preparation of the estimates submission requires the allocation of these total funds in terms of the activity and object-of-expenditure classification structures of the department. At the same time, in order to meet the future needs for appropriation control after the *Estimates* have been approved by Parliament, it is necessary for the funds to be allocated on a responsibility basis. Accordingly, those who are to be responsible for funds should be involved in the preparation of the estimates submission and/or should prepare budgets subsequent to Treasury Board approval of the estimates.

It is important to involve those at the lowest levels of budgetary responsibility when the departmental estimates are prepared. The use of unit costs and sophisticated means of estimates compilation may mean that much of the routine work of preparing departmental estimates may be performed centrally before involving the responsibility centre manager. Irrespective of timing, it is essential that the responsibility centre manager be involved to the extent necessary to ensure that the budget of the centre is an accurate assessment by the manager of the resources required to carry out the assigned activity elements. This is necessary if the manager is to be personally committed to the final budget.

The *Program Forecast and Estimates Manual* prescribes how departmental estimates should be presented to Treasury Board and to Parliament. Estimates must be submitted on a cash basis, as the appropriation by Parliament is in respect of services coming in course of payment during the year.

Departments now use two approaches in preparing budgetary submissions for each responsibility centre:

- the preparation of submissions based on the expected outlay of funds for resources to be acquired in the year, expressed initially in terms of objects of expenditure and then converted into activity elements; and
- the preparation of submissions based on the cost of forecast output, expressed initially in terms of activity elements and subsequently computed in terms of objects of expenditure.

Both approaches must result in the sending of the estimates submission to Treasury Board on a cash basis. Whenever possible, individual managers should draw up their budgets on the basis of estimating the cost of resources they expect to consume, not acquire, during the year.

A distinction is made in this chapter between budgets prepared on a cash basis and those prepared on a cost basis. This distinction is probably not necessary for all departments, particularly those having primarily administrative responsibilities where cash disbursements to acquire resources may often be identical with the cost of resources consumed. Departments with extensive operating responsibilities, however, should recognize the distinction if line managers and financial officers are to carry out properly their different budgetary responsibilities. With the emphasis on program budgeting methods, responsibility centre budgets are more properly drawn up on a cost basis so that financial requirements can be related to anticipated operational output in the fiscal year.

Basic Requirements for Preparing Departmental Estimates

Departmental budget guidelines are required to initiate and direct the accurate and efficient preparation of input to estimates submissions by responsibility centre managers. These guidelines, which should be based on decisions arrived at as a result of program forecast submissions, should include instructions on the levels of

activity planned, methods to be used in preparing budgets, and total dollar and person-year constraints within which budgets are to be submitted, thereby encouraging responsibility centre managers to produce realistic budgets in a consistent form. When requirements for individual programs differ, the instructions should be tailored to each program.

Departments should establish standard worksheets for each program at the primary level of responsibility to assist the manager in the preparation of the budget, to ensure the recording and retention of basic data, and to facilitate the aggregation of financial requirements at higher responsibility levels. At the same time, the worksheets should facilitate the entry of data on the forms used for the estimates submission to Treasury Board.

On receipt of the budget worksheets from each subordinate responsibility centre manager, the higher level manager should review the budgets to ensure:

— that they have been drawn up in accordance with the instructions and constraints in the budget guidelines;
— that plans are realistic, standards have been applied when available, and the computation of costs by objects of expenditure are reasonable; and
— that the proposed mix of resources minimizes costs.

The review by financial officers should include analysis of individual responsibility centre submissions in order to:

— compare and verify costs;
— ensure that budgets have been drawn up within the targets advised for the year or that there are suitable explanations for variations therefrom; and
— review the justification for the funds requested.

They should then consolidate the individual submissions and forward them to the next level of management where review and consolidation take place, until the final consolidation results in the preparation of the estimates submissions in the form required by Treasury Board.

The review of submissions by departmental senior management is designed to ensure that they can support the requests of their subordinates to Treasury Board. This review could be accomplished by using an estimates committee made up of senior managers.

Any changes in budgets imposed at higher levels, including Treasury Board and Parliament, should be passed back to the responsibility centres affected so that their budgets and operational objectives can be adjusted accordingly.

Traditional Method of Preparing Departmental Estimates by Objects of Expenditure

The traditional method of budgeting is to start at the lowest level of responsibility, specifying the numbers and classifications of people and the amounts of equipment, materiel, supplies, and other resources required to carry out the duties and responsibilities of the manager. The manager budgets for these resources on the basis of purchases anticipated during the year.

The budgets, as submitted by the responsibility centre manager, are aggregated through the organizational structure on the basis of objects of expenditure. The process is virtually completed when total requirements for a program have been aggregated and the amounts by objects of expenditure can be entered on the forms required for the Treasury Board submission.

However, before the estimates submission can be completed, it is necessary to allocate requirements computed by objects of expenditure among the various activities and subactivities of the departmental program. When each responsibility centre is involved in only one activity, this is a straightforward matter because a department's responsibility structure will coincide with its activity structure. When this is not the case, a rational means of allocation that can be supported by objectively determined evidence has to be devised.

This traditional system describes procedures that are still common to many departments and agencies and should be followed when the preferred method based on the cost of activity elements is not possible. This preferred method is described below.

Preparing Departmental Estimates by Activity Elements

The main purpose of preparing estimates submissions based on activity elements is to satisfy the needs of departmental management for a budgetary plan in which costs can be evaluated in relation to operational performance. This enables management to identify problem areas, that is, those whose costs in relation to output are excessive, so that appropriate corrective action can be initiated. This mothod would ensure that planned objectives are achieved or, where necessary, modified.

The relating of costs to achievement or output to be produced during the year introduces a budgetary requirement that is not necessary when the budgetary process concentrates on objects of expenditure. If responsibility centre managers direct their attention to operational achievements for which they have been assigned responsibility, their main concern is to identify the costs of human and other resources required in the period in which the work is carried out. The cash required to pay for the resources acquired during the period is of secondary concern, as this aspect is more related to the work of a financial officer.

Departmental guidelines

In an earlier section of this chapter outlining basic requirements, the importance of guidelines providing dollar and person-year constraints was indicated. Guidelines for cost-based budgets should also cover the following matters:

— clear identification and definition of each activity element to be utilized in building up program requirements;
— estimated unit costs for each activity element, or aggregated costs for activities or subactivities when unit costs can be determined only on an aggregated basis;
— methods of computing costs of administrative elements when no relevant unit costs are available; and
— details of components of unit costs in terms of objects of expenditure.

The guidelines should also contain clear instructions on forms to be completed, responsibilities of contributors, procedures, dates for review, and other necessary matters.

Operational work plans

As a basis for preparing cost-based budgets, a written work plan should be prepared by each responsibility centre. The work plan is a specific statement of the annual workload, outlining all activity elements to be undertaken in that year. When completed, it provides the basis for assessing operational accomplishment during the year in relation to the costs of resources provided.

The work plan for a responsibility centre should reflect and be consistent with the objectives set out for the departmental program of which it is a part. Any permanent terms of reference issued to a responsibility centre should be reviewed before assuming that existing processes and projects have continuing validity and before including such operations in the work plan. The operations reflected in the budgetary submission should be those agreed to when objectives are settled between managers and their superiors. In all cases there must be an adequate flow of information regarding the scope and nature of operations so that the final work plan is agreed to both by responsibility centre managers and supervisory levels of management.

The work plan should indicate the criteria by which the manager's progress will be evaluated. When these criteria are outputs that can be directly related to person-year requirements and other cost components, the person-year and unit costs to be used in computing budgetary requirements should be clearly defined.

Techniques for preparation

Preparation of cost-based budgets, like cash budgets, begins at the lowest level of responsibility and moves up through the various levels of management. The process starts with specifying the expected output for each activity element for which the responsibility centre manager is responsible. Unit costs are then applied to the projected output volume, and a first estimate of costs is determined. However, the costs of few activity elements will vary directly with volume, because there are certain fixed and semi-fixed costs that must be covered regardless of volume, as well as costs that do not necessarily increase when volume increases. Each responsibility centre manager must verify that the unit costs used are appropriate to that manager's unique situation, whether they are provided in national or regional averages, in averages based on the manager's past experience, or in standards based on work measurement studies. When the managers consider that the unit costs provided in budget guidelines are not appropriate for their responsibility centres, they may have to negotiate with their superiors for special unit costs that reflect their special circumstances. Unit costs included in budget guidelines should be based on documented cost studies utilizing data on the previous year's costs, variables related to volume, projections of price changes, and work measurement or other engineered standards.

Information on the methods of computing unit costs should be extracted from these cost studies and provided to responsibility centre managers to assist them in assessing the appropriateness of the unit costs to their operations.

If the unit costs used by responsibility centre managers have been properly computed in terms of objects of expenditure, they should be able to compute the amounts allowed for each resource required. The managers can then identify the numbers, classification, and salaries of people on staff or to be hired, and relate the resulting requirement to the portion of the costs allocated for salaries. Similar computations can be made of the costs of other resources to which they are committed or that must be obtained. The managers will then be able to justify variations from average or historical costs based on special cost factors that can be identified, including economies or diseconomies of scale.

Where unit costs have not yet been introduced, the responsibility centre managers will be expected to justify their demands for resources on the basis of past experience and, whenever possible, by comparison with other centres involved in carrying out similar functions.

In summary, the preparation of operating budgets, assuming unit costs are available, is a three-stage operation:

— the arithmetical calculation of resource requirements based on anticipated workload for the responsibility centre;

- the determination of personnel and other resource requirements, taking into account any costs that are fixed or semi-fixed and not controllable; and
- the negotiation by individual responsibility centres of variances from program averages because of differences between computed costs and minimum requirements, taking into account the centre's ability to control its costs.

An illustration of the forms and procedures is given in Appendix B. Preliminary calculations could be made by computer, with printouts supplied to responsibility centre managers by financial officers, such calculations flowing directly from unit costs used in the program forecast data submitted to Treasury Board.

Aggregation and conversion of cost-based budgets to cash requirements

When budgets are prepared in advance of the estimates submission, they can, through a process of conversion, form the basis of that submission. Several steps may be necessary before the cost-based budgets of responsibility centre managers can be aggregated and converted to the cash basis and form required for estimates submissions.

The initial aggregation may take place within a responsibility centre. When a responsibility centre is involved in more than one activity element, costs computed by activity element must be converted into objects of expenditure and then aggregated to arrive at total costs by objects of expenditure for the responsibility centre. The budgets of responsibility centres must then be aggregated by both activity elements and objects of expenditure to arrive at a total budget for the next level of management. This process of aggregation continues until the total cost by activity elements and by objects of expenditure is known for each departmental program.

In many programs, most differences between costs and cash requirements will be eliminated at the fiscal year-end because an additional 30 days are allowed to settle accounts coming in course of payment during the year. In other programs, costs will have to be adjusted to arrive at cash requirements. This is because of two factors—first, the need to take into account changing inventory levels and second, the need to anticipate lapses in responsibility centre budgets that have decentralized financial control.

Budgeting for inventories

When there is a continuing need for certain materiel the practice is often to replenish or deplete stocks of materiel during a fiscal year, depending on cash availability. This should not distort the operating reports of managers, however. Whenever fluctuations in inventories distort costs significantly, it is important to plan and account for changes in inventories. Some procedures are therefore required to account for the purchase of materiel and supplies until they are chargeable as current costs. One method is to utilize a revolving fund to account for the cost of materiel until it is withdrawn from storage for use, at which time it becomes a proper charge to the operating budget.

Another method is to follow the same principle of holding the costs in suspense until they become proper charges to responsibility centre budgets, but this must be done within the activity structure of the department. Inventory purchases are charged to a separate item within the classification of accounts of the activity classification, and the costs are transferred by journal adjustment to the other activity elements only when inventories are consumed. The balance remaining in the inventory account at the end of any accounting period represents the change in inventory holdings over the period and is reflected as an expense of the fiscal period, but in a manner that does not distort unit costs used for purposes of operational evaluation of other activity elements.

Changes in inventory levels should be budgeted for separately when a centre is anticipating a build-up or depletion of inventories. When a change is anticipated, it should be shown as if it were a separate activity element in preparing budgets. Inventories identified at the activity element level will not be disclosed in aggregated submissions to Treasury Board or Parliament; the technique is primarily used by departments to achieve better operational control.

Anticipation of lapses in responsibility centre budgets

The significant decentralization of budgetary responsibility that has taken place in departments has led to a further adjustment in determining cash requirements for many programs. Because the estimates are a ceiling on disbursements, not a target for them, adequate precautions must be taken to prevent excess disbursements. Thus, if managers are properly concerned about avoiding over-expenditures, they may often fall short of ceilings. Unless such shortfalls are recognized in time to permit the utilization of funds elsewhere, actual cash requirements will be less than the total of cash requirements estimated by each responsibility centre.

Since section 25(1) of the *Financial Administration Act* limits the amount that may be committed to the amounts provided in appropriation acts, officers exercising authority to give commitment certificates must ensure that managers stop making commitments when the level of commitments and disbursements exhausts all free balances in appropriations.

When there is significant decentralization of budgetary responsibility within a program, the budgets of responsibility centres at the lowest levels of delegation may exceed the amount of the estimates, as long as provision for anticipated lapses is made in the consolidated budgets of successive levels of managers. This provision is to ensure that the total of responsibility centre budgets at all levels does not exceed the amount of departmental appropriations. This clearly places responsibility on managers, rather than on financial officers, to see that anticipated lapses are realized. The discounting should be based on factors proven by previous experience, with expenditures and commitments being controlled to ensure that unforeseen events do not alter previous years' experiences.

The problem of lapsing funds may be compounded when departments establish contingency funds by restricting the spending authority of responsibility centres to amounts less than the budgets they submit. When contingencies do not emerge, and the amounts revert to the budgets of the responsibility centre managers at the last moment, it may be too late to utilize the funds. Contingency funds should be justified separately and allowed to lapse if they are not required.

The lapsing of appropriated funds often may be justified when a change of plans has resulted in a reduced requirement for resources or when a contingency does not materialize. The budget flexibility given to the deputy head should be used as far as possible to reallocate funds on a planned basis.

Estimates of Grants and Contributions

Grants and contributions made by a department or agency contribute to the activities and objectives of a departmental program as do operating expenditures.

Grants are unconditional transfer payments; contributions are conditional transfer payments. For both types of payments the government will not receive any goods or services.

Grants differ from contributions in the following respects:

— Items listed in grant tables in the *Estimates* are legislative, whereas items in contribution tables are informational.
— The approval of the Treasury Board is required of the terms and conditions for all contributions and for grants to classes of recipients. Approval must be sought at the time authority is obtained to include a grant or contribution in the estimates.
— Contribution payments are subject to audit, whereas grant payments are not.

Chapter 9 of this guide sets forth the requirements for detailing grants and contributions in departmental estimates and explains certain restrictions placed on the use of these funds. These requirements must be taken into account when preparing and aggregating responsibility centre budgets.

Proposals for expenditures on grants and contributions totalling more than $5 million within any program during a fiscal year will constitute a separate vote. Circular 1969-94 and Chapter 4 of the *Program Forecast and Estimates Manual* provide more information on this matter.

Estimates of Capital Requirements

The preparation of estimates for capital requirements for inclusion in a department's estimates submission follows a procedure that is different from that required for administration, operation and maintenance, and grants and contributions budgets, because capital requirements are examined in greater depth at the planning stage.

The departmental capital budget is a continually updated record of approved and proposed capital projects whose cost is $250,000 or more. The preparation of capital budgets will be preceded by the proper planning processes, and capital projects will be selected on the basis of the cost effectiveness of their contribution to the objectives of the program concerned, within the financial and other constraints imposed.

The very nature of capital procurement requires that the budget be prepared on a cash basis. At the time of preparation of the estimates submission, the approved capital program for the estimates year will be obtained from the most recently updated capital budget and will be listed separately from administration and operation and maintenance expenditures, in accordance with the instructions given in the *Program Forecast and Estimates Manual*. The items included are, in effect, the items approved in the program forecast submissions, updated to accommodate the most recent engineering estimates and any more recently approved high-priority projects.

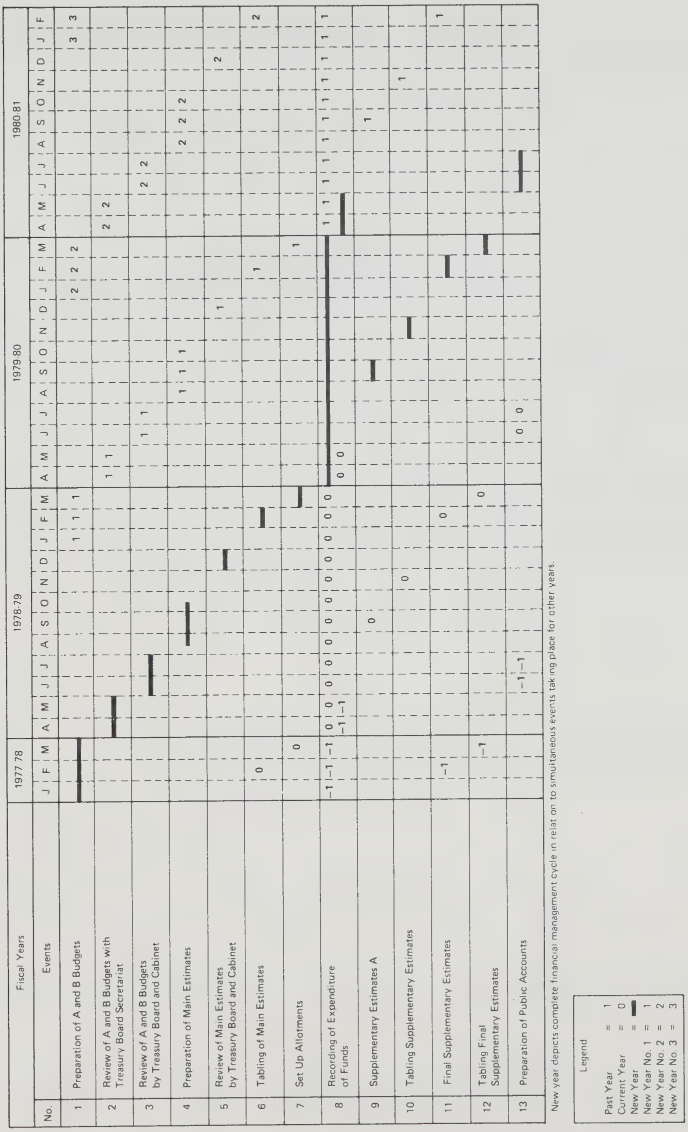
Before projects are included in the estimates submission, proposals should be reviewed to ensure that:

— there is a continuing need for all capital projects that involve the replacement of existing facilities, and that these projects have been viewed in the light of current program objectives and the alternatives available;
— the alternative of renting the facility from the private sector has been considered as part of a make or buy analysis;
— there has been proper evaluation of the economic life of the assets, and that a program for replacing assets has been established covering a reasonable number of years; and
— preliminary estimates of the cost of capital proposals are based on sufficient data to ensure their reliability.

The total funds available are normally governed by the amounts approved by Treasury Board, following consideration of program forecast submissions.

Appendix A Sequence of Major Financial Events

Exhibit A
Sequence of Major Financial Events of the Budgeting/Reporting Cycle



Appendix B Procedures for Preparing Responsibility Centre Budgets

Introduction

An illustration of the forms and procedures is given in Exhibits A to E inclusive. They are not designed for use in every situation; they are intended to illustrate ideas to be considered when designing departmental forms. Different forms are required, depending on whether costs are calculated using a person-hour standard for each unit of work or a standard based on total costs for each unit of work.

Process-type Activity Elements

Person-year requirements

The worksheet illustrated in Exhibit A provides for the calculation of total production hours required for the forecast number of work units using a person-hour standard for each unit of work, to which are added allowances for various categories of non-productive hours. A separate calculation of established person-hours available is made on the worksheet illustrated in Exhibit B. This is a general worksheet that provides for the listing of continuing staff by classification and salary cost and is completed whenever amounts are estimated under Standard Object 1—Personnel. It details the total requirements in terms of salary costs and person-years for established staff for the estimates year.

The difference between available staff as assessed in Exhibit B and staff requirements calculated in Exhibit A is then computed, together with casual staff or staff reallocations required, before converting the budget from person-hours into salary requirements at the established rates. The responsibility centre budget is completed by justifying, on a cost basis, resources required under standard objects other than Standard Object 1—Personnel. No illustration of this worksheet is given because its format will depend on the nature of the justification required.

Work unit resource requirements

Using a previously determined unit cost, the total cost for a given workload is calculated on the worksheet illustrated in Exhibit C. The form also provides for the breakdown of the total cost by objects of expenditure in the proportions used in the unit cost. The salary requirement under Standard Object 1 is verified with the calculation of established staff costs (using Exhibit B).

Project-type Activity Elements

Summary of project costs by reporting objects

When each project is identified with only one responsibility centre, the easiest method of preparing budgets is by reporting objects. No illustration of this worksheet is given because it will vary, depending upon the nature of the project.

Exhibit D illustrates a schedule to be used by a responsibility centre in summarizing the resource requirements of all the projects for which it is responsible. The totals of the columns show the total resources

required by the responsibility centre. A separate calculation of established staff costs should be made on the worksheet illustrated in Exhibit B, to relate the total staff resources required to those at present available or to be requested. In planning the work schedule for the year, the responsibility centre manager will need to prepare a breakdown of project costs by month. The design of a worksheet for this purpose could be similar to Exhibit D, the vertical columns being used for the months of the year instead of the reporting objects.

Individual project-cost analysis

The three-page form illustrated in Exhibit E is intended to be used in the planning of a project in a department where the majority of projects involve the participation of two or more responsibility centres and require the application of certain common processes. Exhibit E provides for the assembly and analysis of costs by processes, by organizational units involved, and by months of expenditure, thus providing the input to a matrix analysis of total project costs.

In completing the form, the project manager (who would normally be the responsibility centre manager sponsoring the project) first outlines the project, identifies the participation required by other responsibility centres, and draws up a provisional timetable of events. All participating organizations are then asked to agree to the timing and to furnish estimates of their person-year and dollar costs by process and by month. Costing is facilitated by the use of standards whenever available. On receipt of this information, the project manager enters on page 2 of Exhibit E the total cost and person-year requirements by process for each organization, and on page 3 the cost and person-year requirements by month for each organization. When this is completed, the columns on page 2 are totalled horizontally and vertically, the horizontal totals providing the cost and person-year requirements by responsibility centre for entry in part B of page 1, and the vertical totals providing the cost and person-year requirements by process for entry in part A of page 1. Totals from page 3 providing monthly costs and person-year requirements are entered in part C of page 1.

Each responsibility centre should compile its own Summary of Project Costs (Exhibit D) to aggregate the resources required for all the portions of approved projects assigned to it as input to the operational budget. It is at this stage that the breakdown by standard objects of expenditure is made. A separate calculation of established staff costs should be made on the Calculation of Staff Costs Form (Exhibit B) to relate staff requirements to staff proposals.

Exhibit A

Person-Year Requirements Worksheet

Responsibility Centre ____________ Year ____________

Activity Element ____________ Date Prepared ____________

		Monthly Workloads												
		Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Totals
1	Work Units Forecast													
2	X Standard Time													
3	= Total Production Hours													
4	Additional Hours: Staff Training													
5	Additional Hours: Absences (excl. Vacations)													
6	Additional Hours: Enforced Wait													
7	Additional Hours: Vacations													
8	Total Person-Hours Required													
9	Person-Hours Available, Full-Time Staff													
10	Difference (8-9)													
11	Person-Hours Provided, Casual Staff													
12	Person-Hours Provided, Reallocated Staff													
13	Regular Salaries Required													
14	Casual Salaries Required													
15	Surplus Salaries													
16	Total Salaries Required													

Average Salary Rates per Hour

Continuing Full-Time Staff ____________

Casual Staff ____________

Exhibit B

Calculation of Staff Costs Form

Responsibility Centre ______________ Year ______________

Activity Element ______________ Date Prepared ______________

Category and Group	Average annual salary April 1, CY (1)	Adjustment to rate effective prior to April 1, CY: % (2)	Adjustment to rate effective prior to April 1, CY: new rate (3)	Further % adjustment subject to April 1, CY (4)	Average annual rate, CY (5)	Plus 1% for reclassification & annual increment, CY (6)	CY annual salary adj. by 1% for reclassification & annual increment, NY (7)	Expected person-year utilization, NY (8)	Salary costs, NY, excluding provisions for salary revisions (9)	Provision for Salary Revisions, NY: Annual (10)	Provision for Salary Revisions, NY: No. of Months (11)	Provision for Salary Revisions, NY: Amount (12)	Forecast total salary, NY (13)
Total Continuing Establishment													
Extra Duty Pay													
Casuals and Others													
Totals													

For small responsibility centres, actual as opposed to average annual salaries should be entered in Column 1.

Exhibit C

Work Unit Resource Requirements Worksheet

Responsibility Centre ______________________ Year ______________

Activity Element ______________________ Date Prepared ______________

			Monthly Workloads												Totals
			Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	
1	Work Units Forecast														
2	X Unit Cost														
3	= Total Cost														
4	Breakdown of Total Cost by Resource Components	%													
	1 Personnel 2 3														
	Total														
5	Salary Requirement: Full-Time Staff														
6	Difference (4.01 – 5)														

Exhibit D

Summary of Project Costs by Reporting Objects

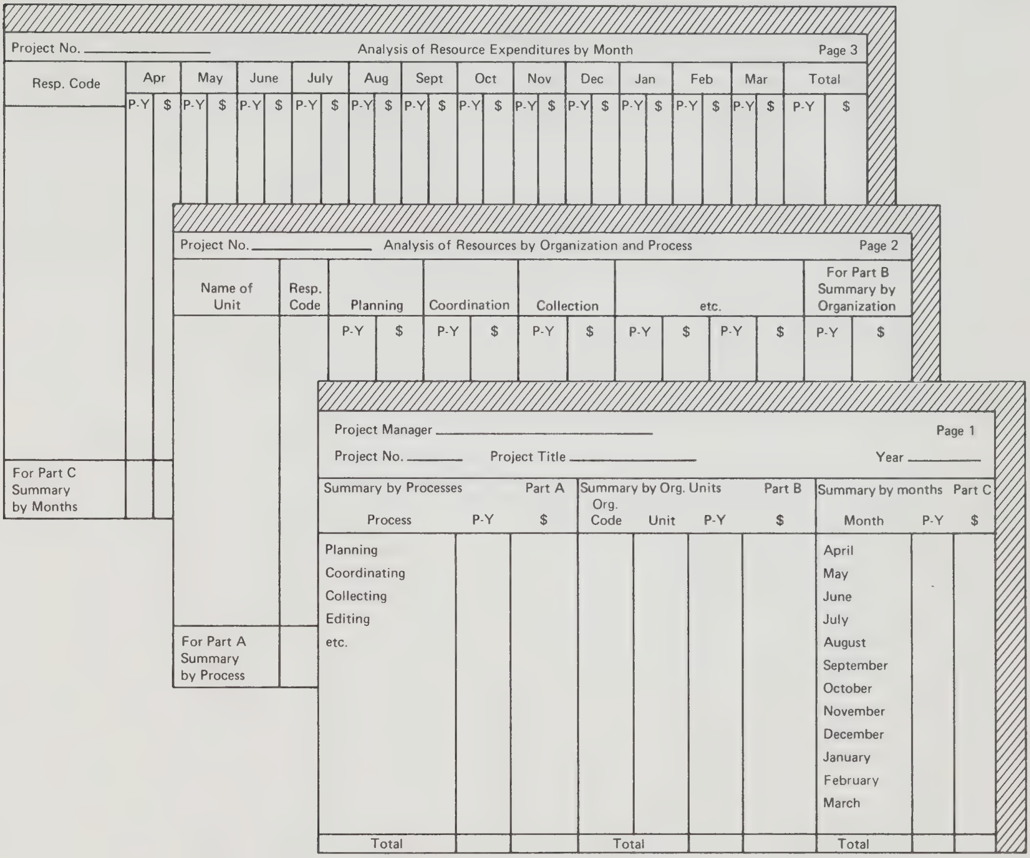
Responsibility Centre ____________ Year ________

Date Prepared ________

Project No.	Short Title	Person-Years	Reporting Objects				Total
						(Breakdown according to departmental requirement, with the use of extension sheets as required.)	
	Totals						

Exhibit E

Individual Project Cost Analysis Forms



Chapter 6
Budgetary Control

1. Directives and Guidelines

Directives

- Control accounts shall be maintained, on behalf of the deputy head, by financial officers or by other officers with payment authority for each appropriation and for each allotment prescribed by Treasury Board, whether departments are operating under full or interim supply appropriations or special Governor General's warrants, so that expenditures in relation to these limits can be determined at any time.

- When payment authority is delegated to officers in decentralized locations, allotments shall be divided into suballotments for each such officer, and control accounts shall be maintained for each suballotment so that officers requisitioning payments are able to control requisitions in relation to the undischarged commitments and free balances in their suballotments.

- To comply with the statutory requirement to keep records of commitments and to certify the availability of funds before entering into commitments, departments shall:

  — for administration, and operation and maintenance expenditures, retain for each responsibility centre copies of all documents recording undischarged commitments and report the total of such items for inclusion in periodic budgetary control reports; and
  — for capital, for grants and contributions expenditures, and for multi-year expenditures, maintain a continuing record of individual commitments by fiscal year.

Guidelines

- Because annual appropriations are for services coming in course of payment during the fiscal year, departments should ensure that payments are requisitioned and processed promptly so that all accounts are paid in the fiscal year in which goods or services are supplied and in which funds are provided.

- Cash forecasts that recognize the impact of operational and seasonal factors on cash flow should be prepared periodically in each department; a simple extrapolation of the current or prior year's disbursements will seldom provide a sufficiently accurate cash forecast.

- Each responsibility centre manager should control the utilization of the resources in the budget through a system whereby:

  — costs by activity elements and reporting objects are budgeted by period in relation to planned output;
  — actual costs and outputs are reported by period; and
  — variances between budgeted and actual costs in relation to outputs are analysed with a view to corrective action.

2. Control of Appropriations and Allotments

Appropriation acts are the means by which Parliament grants expenditure authority to the Crown for departments and agencies. This authority is specified in terms of maximum permissible cash expenditures for separate expenditure categories known as votes or appropriations. To further refine control over cash expenditures, Treasury Board has authority to divide appropriations into narrower expenditure categories known as allotments.

Requirements for Control of Appropriations and Allotments

Parliament grants two types of authority for expenditures. One is by annual appropriation of a fixed amount of money, the authority for which expires at the end of the relevant fiscal year; the second is by continuing statutory authority based on legislation that may or may not provide an annual ceiling, the authority for which extends into future years until the legislation is repealed or changed.

Annual appropriations

Several appropriation acts are normally passed each fiscal year to grant authority for the annual appropriations. An interim supply bill is passed shortly before the beginning of the fiscal year to provide sufficient funds for the early part of the year. By early summer, appropriation acts are usually passed, approving in full the amounts submitted in the *Estimates*. If required, supplementary estimates are authorized in the fall, and the final supplementaries for the year are authorized just before the end of the fiscal year. Each appropriation act repeats the wording of the votes in the *Estimates* and when passed gives legislative authority for expenditures for the purposes and within the limits specified by each vote.

The requirement for appropriation control begins as soon as the authority for expenditures is released to departments. An appropriation granted by Parliament does not constitute direct authorization for departments to make expenditures; funds are granted to the Crown for allocation to departments by order in council.

Section 20 of the *Financial Administration Act* prescribes that all estimates submitted to Parliament shall be for services coming in course of payment during the fiscal year. Section 21 identifies the requirement for cash control to ensure that payments do not exceed appropriation ceilings.

> 21 "Where an appropriation is made for any purpose in any Act of Parliament for granting to Her Majesty any sum of money to defray expenses of the public service of Canada for a fiscal year, no payment shall be made pursuant to that appropriation out of the Consolidated Revenue Fund unless a warrant, prepared on the order of the Governor in Council, has been signed by the Governor General authorizing expenditures to be charged against the appropriation, but no payments in excess of the amount of expenditures so authorized shall be made."

Section 26, subsection (3) of the *Financial Administration Act* reinforces the requirement of section 21 that cash payments not exceed the limits authorized in appropriations, and in addition, introduces a requirement for a means of control to ensure that the balances remaining in appropriations are always adequate to honour all outstanding commitments.

26 (3) "No requisition shall be made pursuant to subsection (1) for a payment that

(a) would not be a lawful charge against the appropriation;
(b) would result in an expenditure in excess of the appropriation; or
(c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it."

Section 30 of the *Financial Administration Act* gives departments time to make cash payments to discharge commitments properly applicable to the old year as follows:

30 "The balance of an appropriation granted for a fiscal year that remains unexpended at the end of the fiscal year shall lapse, except that during the thirty days immediately following the end of the fiscal year a payment may be made under the appropriation for the purpose of discharging a debt payable for work performed, goods received or services rendered prior to the end of the fiscal year or payable under any other contractual arrangement prior to the end of that year, and such payment may be charged in the accounts for the fiscal year."

While the wording of section 30 is not obligatory, departments should ensure that payments are made promptly and charged to the proper fiscal year. Departments should have available systems to ensure that payments are made whenever the work has been performed, whenever goods have been received or services rendered, or whenever contractual obligations require payment prior to the end of the fiscal year.

Interim supply and Governor General's special warrants

Parliamentary approval of all departmental estimates cannot normally be provided before the beginning of the fiscal year. Funds are provided to carry on day-to-day government operations through an interim supply appropriation act that in recent years has usually covered operations for three months. The amount is intended to cover all requirements under each appropriation, based on need, but it is usually converted into twelfths of the total estimates for each vote, until full supply is granted. Departments must not spend more money than is granted through interim supply appropriations.

If Parliament is not in session and appropriations have not been approved, the government can request that temporary authority to make expenditures be granted to departments to make payments urgently required for the public good through Governor General's special warrants in accordance with section 23 of the *Financial Administration Act*. Funds are not appropriated on a twelfths basis but provide the total amount of the urgent requirement. When full supply has not been voted and Parliament is not in session, section 23 deems these special warrants to be part of a department's annual appropriations, not in addition to them. This does not apply when full supply has been granted but additional amounts are required and Parliament is not in session. In this case, amounts in special warrants are equivalent to the granting of supplementary estimates. In both cases the requirements for cash and commitment control over appropriations specified in sections 21 and 26(3) of the act are applicable. It should be noted that whereas appropriations authorize the spending of certain receipts, special warrants cannot provide such authority nor can they be used to transfer funds from one vote to another.

Specific instructions are normally issued to departments by Treasury Board if it is necessary to finance government operations through Governor General's special warrants.

Allotments

Section 24 of the *Financial Administration Act* specifies that appropriations be divided into allotments and subsections 24(3) and 24(4) identify the need to establish and control allotments arising from both the *Estimates* and *Supplementary Estimates*.

24 (1) "At the commencement of each fiscal year or at such other times as the Treasury Board may direct, the deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons shall, unless otherwise directed by the Board, prepare a division of such appropriation or item into allotments in the form detailed in the estimates submitted to Parliament for such appropriation or item, or in such form as the Board may prescribe.

(2) "A division required to be prepared pursuant to subsection (1) shall be submitted to the Treasury Board by the deputy head or other person charged with the administration of the service to which it relates.

(3) "Where a division required to be submitted to the Treasury Board pursuant to subsection (2) is approved by the Board, the allotments shall not be varied or amended without the approval of that Board.

(4) "The deputy head or other person charged with the administration of a service for which a division is required to be prepared pursuant to subsection (1) shall ensure by an adequate system of internal control and audit that the allotments provided in such division are not exceeded."

When full supply has been voted, the exercise of control over allotments automatically achieves control over the appropriation, since the allotments total the appropriation. By contrast, during periods of financing under interim supply or Governor General's special warrants, there is no statutory requirement to limit expenditures to the corresponding portion of individual allotments as approved by Treasury Board, although such control is desirable.

Treasury Board may direct that departments set up separate allotments for specific purposes. One example is the designation of funds provided for salary revisions as a "reserved allotment". Treasury Board may also direct that certain funds be frozen, in which case no expenditures can be made from the allotment until authorized by the Board. This authority is usually granted as a result of a specific submission to the Treasury Board by the department concerned.

Cash Control

The requirements for cash control over appropriations and allotments have been identified above. Cash accounting and forecasting procedures to achieve control over allotments are described below.

Cash control records

To control cash expenditures in relation to allotments, records must be maintained for each allotment. Normally, this involves keeping manual records in each office where payment authority is exercised. In these

records the opening balance of each allotment is recorded; the amounts applicable to each allotment from each batch of cheque requisitions passed for payment or journal entries are posted; and the balances are reduced so that at all times the amounts of cash authority remaining can be determined. Postings to these records should be on a day-to-day basis towards the year-end, when the possibility of overspending appropriations becomes more likely.

Because most departments operate on a decentralized basis, each allotment is usually further subdivided by the department to permit the disbursement of funds outside departmental headquarters. Each responsibility centre will normally be serviced by officers having payment authority who will be accountable for suballotments out of each approved allotment. Over-expenditures for purposes provided for in one suballotment may not be offset with under-expenditures in another suballotment, unless they are suballotments of the same allotment. To maintain control, each office having payment authority must maintain the same type of control records as at headquarters so that disbursements by the department as a whole will not exceed the authorized totals.

In departments where payment authority is extensively decentralized in this way, the financial reporting system should provide reports showing the free balances of suballotments for distribution to each office that has payment authority, with aggregate statements being prepared for the central financial officers to ensure that in total the department is within the allotment limits prescribed by Treasury Board. Manual records kept in individual offices for day-to-day control between receipt of periodic statements should be reconciled to these statements.

Cash forecasting

Cash forecasting is essential for all departments, to ensure that:

— cash disbursements remain within the limits of each appropriation and allotment;
— available cash authority is fully utilized; and
— additional cash authority is obtained when the existing amount is inadequate.

Cash forecasting is also necessary to provide reliable forecasts to assist those who are responsible for central cash management.

The estimates are normally prepared several months in advance of the fiscal year. Many departments wait for Treasury Board approval before forecasting their cash disbursements month by month. The first forecast is usually made before the start of the year as required by central agencies. The original forecast should be periodically updated in the balance of the year to reflect subsequent experience and changing circumstances.

The need to re-forecast annual appropriation cash requirements increases in importance as the year progresses because unused cash authority lapses at the year-end, and expenses that remain unpaid have to be met out of the subsequent year's appropriations. In most cases the next year's estimates have already been finalized before these circumstances are known. If a department fails to recognize situations where available cash authority is insufficient, and neither asks for supplementary estimates nor takes action to reduce costs, it may have to carry over costs that are too late to include in the following year's estimates.

Departments are responsible for designing and carrying out whatever procedures are required to permit accurate forecasting of periodic cash requirements. Procedures are contained in Appendix A.

Commitment Control

Although emphasis was placed on cash control earlier in this section, departments are also required to maintain a record of undischarged commitments so that commitments will not be made that cannot be discharged out of funds provided for the year.

Commitment accounting involves the recording of obligations to make some future payments at the time they are foreseen, not at the time services are rendered and billings are received. Such obligations may represent contractual liabilities of a department, as is the case when purchase orders or contracts for goods or services are issued, or they may represent conditional liabilities, as is the case when an arrangement is made that may require the spending of funds if conditions specified in the arrangement are met. An example of the conditional type of commitment is a pre-production agreement by a department to sponsor presentations of a promotional film, with such sponsorship being contingent on departmental approval of the completed film. Funds sufficient to honour this commitment must be reserved until such time as a final decision on sponsorship of the film has been made. For contractual commitments the amounts of future payments will usually be specified in the contract and can be entered directly into the commitment records. In other cases, it will be necessary to estimate the value of future payments for entry into the commitment records. Departments should not establish blanket commitments based on amounts included in the estimates, since the primary purpose of commitment accounting is to maintain an accurate record of free balances in appropriations and allotments, after allowing for all items expected to come in course of payment during the fiscal year.

The requirements of the *Financial Administration Act* with respect to commitments are as follows:

25 (1) "No contract or other arrangement providing for the payment of money by Her Majesty shall be entered into or have any force or effect unless the deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which such payment will be charged certifies that there is a sufficient unencumbered balance available out of such appropriation or item to discharge any commitments under such contract or other arrangement that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract or other arrangement was entered into.

(2) "The deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons shall establish and maintain or cause to be established and maintained on his behalf a record of commitments chargeable to each such appropriation or item in such form as the Treasury Board may prescribe."

Two alternative methods of accounting for commitments are available to departments to satisfy this statutory requirement.

Integrated commitment accounting

The traditional method of accounting for commitments is through integration with the principal accounting records of a department. By recording commitments through the regular accounting system, totals of commitments are made known both to officers who have spending authority and are able to enter into commitments against an allotment and to officers who have payment authority and are required to certify that the unexpended balance of the appropriation after making a payment will be sufficient to honour all outstanding commitments.

This system requires entries to be made when the commitment is first known, with action being taken to delete the relevant part of the commitment when the disbursement takes place. Positive action also has to be taken to review outstanding commitments and to cancel or amend those which are not likely to result in expenditures in the amounts originally anticipated. This approach to recording commitments, in comparison to the alternative described below, involves additional accounting steps.

The disadvantage of this system is that commitment information is normally available only to the officers exercising financial authority on a monthly basis. Because monthly statements do not reflect any commitments incurred subsequent to the cut-off date for the statements, managers do not have information on their commitments or their expenditures from the date of cut-off until they receive a statement for the subsequent month. Thus, even when commitment recording is an integral part of the accounting system, memorandum systems are often established to provide more up-to-date information between monthly statements.

Memorandum commitment accounting

When departments have subdivided their appropriations so that the budgetary responsibility of each officer in charge of a responsibility centre is clearly designated and there is no sharing of responsibility, a memorandum system of recording commitments will usually be adequate to meet a department's needs. In these circumstances, the responsibility centre keeps an open file of all undischarged commitments. If a memorandum record is also kept of all vouchers processed for payment since the cut-off date of the latest financial statement on hand, the responsibility centre will have current information on both its expenditures and commitments.

To meet the needs of officers exercising payment authority, the total of undischarged commitments should be entered into the regular accounting system at the cut-off date for each monthly statement, the entry being automatically reversed in the succeeding month. This information is required so that the officer may know the amounts of undischarged commitments and free balances when asked to requisition payments. This achieves the same reporting advantage as the integrated system, without the detailed accounting effort that is required in the integrated system. Towards the end of a fiscal year, however, officers exercising payment authority may periodically require details of commitments made since the cut-off date of the latest monthly statement on hand, because additional commitments will reduce free balances. This information can be provided by direct communication on a daily or weekly basis, as required under the circumstances.

Normally, large capital projects are established as separate allotments. Smaller capital expenditures and grants and contributions, not detailed in the *Estimates*, are often assigned to responsibility centres located at departmental headquarters. A permanent record of commitments as opposed to an open-file record is required in these circumstances, since these commitments may remain outstanding over a long period of time.

A permanent record of commitments applicable to future years is also required when Parliament has imposed through the wording of appropriations a statutory limit on outstanding commitments that are permissible at any point in time.

Commitment records must also be maintained for future-year expenditures, even when no statutory ceiling exists, because these contracts are entered into on the assumption that funds will be provided in future years and future-years' requirements therefore must be known. Section 33 of the *Financial Administration Act* states the following:

> 33 "It is a term of every contract providing for the payment of any money by Her Majesty that payment thereunder is subject to there being an appropriation for the particular service for the fiscal year in which any commitment thereunder would come in course of payment."

3. Control of Responsibility Centre Budgets

Allocation of financial authority by Parliament is on an annual cash basis, which requires the appropriation and allotment system of budgetary control over cash and commitments in all departments and agencies, described in the early part of this chapter. However, it must be recognized that budgetary control on a cash basis will be fully effective only if those who initiate action that will result in expenditures have adequate means of controlling their operations in relation to the plans on which cash requirements were originally forecast.

Systems of budgetary control on a responsibility centre basis are necessary because departments are so large and complex that they cannot be centrally managed without the delegation of a substantial degree of financial authority. Delegation of authority does not mean abdication of responsibility; central management should retain control over those to whom they have delegated authority by utilizing systems of financial reporting and budgetary control on a responsibility centre basis.

The concept of managerial control through a budgetary system is that if managers have time-phased plans, if they periodically account for their actions in relation to plans, and if variances are analysed, then the organization in total will live within its budget, attain its goals, or take corrective action to alter its plans or its operations. Such a system requires the following:

— a budgetary plan prepared on a basis that shows costs accurately for each period of time;
— periodic and consistent reporting of costs on the same accurate basis for each period of time utilized in the original plan; and
— a meaningful analysis of variances between planned and actual performance.

The mechanics of producing a periodic budget on a cost basis were covered in Chapter 5. Chapter 7 illustrates reports disclosing comparative and variance information. The remaining part of this chapter illustrates why cost-based systems of budgetary control are often necessary and how they can be used.

Essential Ingredients for Budgetary Control on a Responsibility Centre Basis

Managerial commitment to budgeted plans

A responsibility centre budget should be a priced, time-phased plan designed to control subsequent events. When budgets are drawn up without time-phased plans, and available resources are simply apportioned on an equal basis over each accounting period, it is highly unlikely that a useful yardstick will be available for controlling subsequent events.

For a budget to be effective as a control instrument, both the responsibility centre manager and those to whom the manager reports must be committed to it. The responsibility centre manager should participate in its preparation, and senior management should effectively review the budget so that the approved plan can be regarded as a contract between levels of management to attain certain goals with allotted resources.

Reporting of performance in relation to approved plans

Settling upon an approved plan is the first step in the process of budgetary control; the second is regular reporting of progress in relation to the approved plan. Reporting should be consistent with the manner in which the plan was produced.

An operating manager's budget should be a priced plan, not a cash flow document. Managers should be held accountable for actions that give rise to expenditures. Most managers, however, have limited control over the timing of billings by suppliers of goods and services, can do little to speed up the application of the various checks and balances that are imposed to ensure the propriety of each disbursement, and have limited influence on the timing of cheque issue in the centralized payment system of the Government of Canada. Thus, the accounting system will not produce data in a form that reflects matters within the control of the responsibility centre manager, unless managers are required to budget on a cost basis.

The need for financial information identifying costs, rather than disbursements, becomes most critical when it is desirable to relate costs to units of operational effort or production. There must be a matching of operational and financial data over time, if unit cost data for measuring cost effectiveness or efficiency are to be meaningful. This becomes particularly important if the unit cost data are utilized as part of a budgetary control system that attempts to measure and compare the performance of responsibility centres to each other or to a predetermined standard.

Prompt reporting of performance

A budgetary control system on a responsibility centre basis will be worthwhile only if it leads managers to take corrective action to remedy unsatisfactory performance or plans. In a large complex organization with many levels of authority and geographical decentralization, it is often difficult to identify the level of responsibility for deciding among alternative courses of corrective action. Unsatisfactory performance should simultaneously be made known to all levels of responsibility to facilitate timely decisions on corrective action.

Control on an exception basis

Exact adherence to plan is desirable but rarely attainable. Many deviations are minor and will cancel out from period to period or will offset each other. Since a budgetary control system is designed to initiate corrective action, it should identify only those areas where exceptions are critical enough to warrant managerial action.

Variance Reporting

For a budgetary control system to be effective, managers should be provided with financial reports comparing their own and their subordinates' operations to date with approved plans. If operations are going as planned, no further action may be required. If there are deviations, their significance should be analysed and explained, and alternative courses of corrective action identified.

Variance reports are a responsibility centre manager's own reports. Financial staff can help managers in preparing them, but they should not attempt to assume full responsibility for reaching conclusions on the significance of variances or for initiating proposals for corrective action.

Variance reports should be considered as a positive means of informing higher levels of management of changing situations that, if ignored, may have serious effects on the attainment of responsibility centre and program objectives.

Appendix B provides procedures and forms for a variance reporting system.

There are three main factors that will cause variances:

— changes in volume of output;
— changes in quantity of input; and
— changes in price of input.

Changes in volume of output

A comparison of the actual volume of output in relation to planned output provides managers with probably their most significant variance information. In order to determine and report the effect of changes in the volume of output, units of measurement must be defined, identified, and reported on an accurate and consistent basis for each reporting period. If planned output is not realized and financial resource consumption does not vary on a comparable basis, managers are alerted to the fact that their plans for meeting public needs may not be achieved within their budgets. Thus, they must reconsider their plans or take alternative courses of action.

Changes in quantity of input

There are two factors that can cause changes in the quantity of input to operations. The first directly relates to changes in the quantity of output and should not cause concern. The second relates to variations resulting from changes in efficiency, with more or fewer resources being required for a given volume of output. In this situation, it is critical that management know the reason. It may be because of changes in the quality of resources (both human and materiel), in productive methods, or in supervision. If the variances are unfavourable, corrective action should be initiated. It is easier to determine what action should be taken if standards based on careful study have been developed.

Changes in price of input

Changes in the total dollar cost of input can be affected by an increase or decrease in the volume of either output or input, and by changes in the unit costs of input.

Management may or may not be able to take corrective action in this area. Many price changes are beyond the control of an individual responsibility centre manager. Nevertheless, in drawing up the original plans, the manager may have adopted a least-cost option that no longer applies, and it may be possible to achieve the program goals with a different resource mix. When the price change is more widespread, it may be possible for those managers who are responsible for resource acquisition to take alternative action to lower the cost of resources. Often the cost increases should result in a change in plans to reduce the volume or quality of output, to increase efficiency, or to relax the dollar constraints imposed by the original budget.

Multi-variables

In most situations, no single factor will account for the variances, and there will be a combination of influences that interact. However, through the process of analysis, the various components can be determined and exposed so that appropriate corrective action can be taken on each component.

Budgetary Adjustments

The nature of any department's operations is such that very rarely will operations proceed exactly according to plan. The budgetary control systems should therefore be flexible enough to allow managers latitude to change plans.

Under normal circumstances, managers should be responsible for the total resources allotted to them rather than for the resources of each individual component. There are some limitations, however, that should be observed in this regard. Since most departments operate under a person-year ceiling, it is necessary to define such a ceiling for each manager as well. Managers are also subject to constraints on the use of their casual person-years to employ full-time staff. Departments may wish to control major construction projects separately, and project managers will not receive authority to use the funds from one project for another purpose, this flexibility being reserved for supervisory managers. Under other circumstances, managers may have restricted authority to manage the funds in their budgets and must employ the funds assigned only to meet specific responsibilities.

When managers have authority to utilize the total resource allocation, formal adjustments to budgeted amounts should not be made. If managers wish to overspend or underspend individual activity elements or individual reporting objects, they should be able to do so, but it should be recognized as a deviation from plan, to be reviewed by their supervisors.

When a department structures its budget system so that authority to change is restricted to higher levels, some formal budget-adjustment procedures should be established and followed, or the budgetary amounts being used for control will have little significance. Nevertheless, it is usually desirable not to lose sight of the original plan, and both original and adjusted budgets should be reported.

Appendix A Procedures for Cash Forecasting

Introduction

Departments are responsible for designing and carrying out whatever procedures are required to permit accurate forecasting of periodic cash requirements. Factors to be taken into account include:

— historical trends and ratios of disbursements and non-cash data;
— the flow of expenditure documents through the organization and the possibility of acceleration or delay in processing at any critical point;
— fluctuations in asset holdings, which may lead to managerial action to build up or deplete inventories or fixed assets;
— seasonal and economic changes, which have a predictable influence on operations; and
— pending or anticipated changes in operational plans.

Methods of Forecasting

Three principal methods of forecasting may be considered, depending on the data available:

analysis of cost variances. The original forecast, based on the cost of output forecast for each activity element, is allocated to fiscal periods by adjusting for the normal time lags in making disbursements. It is updated periodically, based on an analysis of variances reported by each responsibility centre to reflect the effect of price or efficiency changes and variances in volume of output, as well as corresponding time lags in making disbursements.

analysis of trends. The original forecast is based on the previous year's trend of monthly cash expenditure projected in relation to the budget provided for the current year, after taking into account any anticipated variations. It is updated periodically, based on trends experienced in the current year.

analysis of reporting objects. The original forecast is based on a detailed analysis of requirements under each standard or reporting object (e.g. salaries, travel, grants, etc.) for each month of the year. It is updated on the basis of actual experience to date plus known and anticipated requirements to the end of the forecast period.

Example

The following is an outline of typical procedures that can be carried out using cash and commitment information that should be available in all departments:

— identify each allotment and suballotment on a form that will facilitate forecasting, such as that illustrated in Exhibit A;
— record appropriation and allotment limits, including supplementary estimates and transfers between allotments;
— record accumulated disbursements and undischarged commitments from control records and compute free balances;
— project expenditures by categories for the balance of the year, distinguishing between items such as travel, where commitment information is not normally available or helpful, and expenditures in categories where commitments can be examined;

- check projections with responsible officers to ensure that there are no special circumstances that may alter previous experience or otherwise affect the forecast;
- when major capital expenditures or grants are involved, request an independent forecast from the responsible officers and compare;
- record the forecast for the period and compare with free balances;
- document the basis used in forecasting for the updating of forecasts in the balance of the year, and for guidance when making a forecast at the same time in the subsequent year; and
- communicate the results of the forecast on a form, as illustrated in Exhibit B.

Exhibit A

Cash Forecast Worksheet

Financial Responsibility__________ As at __________

	Original Budget	Supps	Allotment Transfers	Revised Budget	Cash Disbursements to Date	Total Unliquidated Commitments	Free Balance	Cash Forecast for Year
Suballotment No. 1								
No. 2								
TB Allotment A								
Suballotment No. 3								
No. 4								
No. 5								
TB Allotment B								
TB Allotment C								
TB Allotment D								
Appropriation Total								

Prepared by __________ Date __________

Exhibit B

Cash Forecasting and Variance Reporting Form

Financial Responsibility ____________________ As at ____________

Year to Date				Year-End Outlook		
Actual	Unliquidated Commitments	Free Balance	$000s	Estimates	Forecast	Difference
			Personnel Costs Full-Time Casuals and Others Extra Duty Reserve Allotments			
			Total Personnel Costs			
			Goods and Services			
			Total Gross Appropriation			
			Receipts Credited to Vote			
			Total Net Appropriation			
			Capital Costs Project No. 1 Project No. 2 Others			
			Total Appropriation			
			Grants and Contributions Item No. 1 Item No. 2			
			Total Appropriation			
			Person-Years and Strength Full-Time Person-Years Casuals and Others			
			Total Person-Years			
			Strength Full-Time			

Prepared by ____________________ Date ____________

Appendix B Outline of Variance Reporting System

System Outline

Budgetary control systems on a responsibility centre basis should provide for the following:

— budgets prepared on a periodic basis;
— periodic reporting of actual performance in a manner consistent with the basis on which budgets are prepared; and
— prompt analysis and reporting of variances in terms of output volumes, input quantities, and input prices.

Significant Features

Such systems can take a variety of forms, but all must embody the following features:

— a system of highlighting exceptional circumstances that require managerial attention;
— a system for determining the factors that give rise to the exceptional circumstances; and
— a means of communicating the results of the analysis to the person who must make the decision.

Highlighting of Exceptional Circumstances

The reporting system should be designed to highlight variances so that the attention of a manager will be directed only to pertinent matters. This may take a number of forms:

— project identification by colour code where, for example, red indicates a serious situation, yellow a questionable one, and green a situation in which everything is proceeding as planned;
— percentages may be used either in place of or in addition to dollar variances; and
— the computer can be programmed so that only variances exceeding a minimum percentage, related either to plan to date or to annual plan, or those resulting from failure to achieve predetermined standards are printed.

Analysis of Variances

Analysis should normally be in terms of the following three causes of variances:

— changes in volume of output;
— changes in quantity of input; and
— changes in price of input.

A form illustrating this type of analysis is shown in Exhibit A.

It should be noted that meaningful analysis is virtually impossible without an adequate plan that is prepared periodically. Unless quantities of input and output are identified and priced, analysis becomes very subjective and tends to explain what has happened, rather than what was the cause of the deviation from the plan. Analysis in whatever form should clearly project the year-end outlook based on existing and anticipated variances.

Variance Analysis Reports

Systems for reporting on variance analysis can be designed in a variety of ways:

- reporting may result from a specific request or may be required automatically on the basis of prescribed acceptable limits of variances between results and plans;
- reporting may be based on objects of expenditure or on activity elements;
- reports originating at lower level responsibility centres may be aggregated through the established responsibility levels or forwarded directly to a central analysis group that would produce a summary of problems for distribution to all managers; and
- reports should distinguish between those variances which are caused by new or changed conditions not included in the original budget, such as the implementation of unforeseen government or departmental policy, and those which result from goals not being achieved according to plan, for which responsibility centre managers are more directly accountable.

An example of a variance analysis report is shown in Exhibit B.

Exhibit A

Variance Analysis Form

Responsibility Centre ______________________ As at ______________

Activity Element	Period to Date		Variance (Unfavourable)			
	Budget	Actual	Net	Volume	Efficiency	Price
Volume of Output	1,000	500		50 per cent		
Resource Inputs per Unit of Output	2	3			(50 per cent)	
Cost per Resource Unit	$5	$6				(20 per cent)
Total Cost	$10,000	$9,000	$1,000	$5,000	($2,500)	($1,500)
Unit Cost of Output	$10	$18	($8)		($5)	($3)

Note: On the basis of simple budget analysis, the manager saved $1,000. However, this is not the whole story. The manager's output was 500 units less than budget; his time (or other resource input) per unit of output increased by 50 per cent; and the cost per unit increased by 20 per cent. As a result, there are three situations that must be investigated to explain why unit costs increased by $8.00, or 80 per cent; volume saving $5,000, loss of efficiency ($2,500), and higher prices ($1,500), for a net variance of $1,000.

Exhibit B

Variance Analysis Report

Responsibility Centre ____________ As at ____________

	Year-to-Date Variance under (over) Budget		Approved Annual Budget		Annual Forecast	
	$00s	Units	$00s	Units	$00s	Units
Activity Elements No. 1 No. 2						
Totals						
Reporting Objects Personnel Costs Other Costs						
Totals						

Reasons for Variance

Variance to be explained fully in operational terms by completing the following section indicating the corrective action necessary		Amount $00s
Price Variance	No. 1 No. 2	
Volume Variance	No. 1 No. 2	
Efficiency Variance	No. 1 No. 2	
	Total Year-to-Date Variance	

Current and Projected Annual Requirement

	P-Y	$000s
Total Annual Approved Budget		

Amount that will lapse and is available for reallocation (for which additional resources are required)

	P-Y	$000s	P-Y	$000s
Now				
Estimated for Balance of Year				
Total Change				
Revised Annual Requirement				

Manager's Signature ____________ Date ____________

Chapter 7
Departmental Financial Reporting

Section | Page

1. Guidelines

- Financial management reports that periodically relate actual and planned costs to outputs should be prepared for responsibility centre managers, for their supervisors, and for staff advisers responsible for activities to provide them with the information required to control costs in relation to outputs.

- Separate financial reports that provide information on disbursements, undischarged commitments, and free balances by appropriation, allotment, and suballotment should be provided to financial officers and other officers with payment authority to enable them, on behalf of the deputy head, to control cash flow in relation to limits imposed by annual and other appropriations and by allotments.

2. Financial Reporting Process

Financial reports display in summary form the multitude of transactions that flow through a system of financial administration and may be regarded as its end-products. It is through financial reports that financial information is made visible, that the accountability of managers is expressed, and that certain financial controls are exercised.

The reporting system described in this chapter presupposes the following: a three-fold classification of accounts that identifies activity elements, financial responsibility, and reporting objects; a budgetary system that provides estimates of financial requirements on a periodic basis; and a budgetary control system designed to control appropriations and allotments on a cash basis and consumption of financial resources in relation to planned operational performance.

The component elements of the financial reporting process are shown in diagrammatic form in Appendix A. The process illustrated contains certain elements, such as systems for operational data and cost allocation, that are not always present in departmental systems. In other cases these elements are present, but they are not considered part of, and are not integrated with, the principal financial reporting system. This lack of integration is undesirable because the component systems, for whatever purposes they were originally designed, obtain greater reliability and authority when they are tied in with the principal system. Communication among managers is more harmonious when data are reported within a consistent framework, thereby avoiding conflicting reports and enabling direct comparison between reports. This is not to say that all systems need to be under the control and operation of a single organizational unit; it should be possible to mesh the various components through proper systems design and through coordination at an appropriate level of management.

Input to the Financial Reporting Process

Traditionally, there have been three main types of information for financial reporting: data on cash receipts and disbursements, on budgetary plans, and on undischarged commitments and liabilities. The first type of data are usually derived as a by-product of the cheque issue and cash receipt systems of the Receiver General, but the other two are obtained within departments. However, these traditional types of information should be expanded to include non-financial data relating to resource utilization and performance evaluation as well as to cost distribution information.

Cash transactions

Since the Receiver General is responsible for recording receipts into and disbursements out of the Consolidated Revenue Fund, most data on cash transactions are obtained as a by-product of the cheque issue and cash receipts systems of the Department of Supply and Services. When such data are obtained independently, departments may be involved in duplicate processing, which leads to reconciliation problems if the data reported by the department are to be consistent with those in the central accounts of Canada.

Where appropriate, steps may be taken to eliminate duplicate transcribing of data in automated systems by transmitting them to or receiving them from the Department of Supply and Services in computer-readable form. This is described further in Chapter 8.

Budgetary data

Once the final allocation of resources for a fiscal year is agreed to by Treasury Board, budgetary accounts and operational targets, as allocated to responsibility centre managers, should be input to the financial reporting system in the form required for reporting. As explained previously, responsibility centres should allocate the physical resources that they require and the operational targets that they have been assigned on a monthly basis so that they can be input to the financial reporting system for later comparison with actual results in their financial reports. When responsibility centres have built up their original operating budgets on a monthly basis, some recomputation of monthly figures will be required to reflect any changes in annual targets because of changes at higher levels of management. If the original budgets are drawn up on an annual basis, however, it will be necessary to allocate the resources to reporting periods based on anticipated costs of resources to be consumed in each period.

In Chapter 5, the advantages of computing operating budgets on a cost basis were outlined. When the cost basis is used, the periodic budgets reflect costs consumed in operations, not cash disbursed. Nevertheless, it is still necessary for financial officers to convert operating budgets to a monthly cash flow basis to forecast cash requirements for appropriation and allotment control and for reporting to those responsible for government-wide cash forecasting.

When operational data are input to the reporting system, it is desirable to report forecast results in each reporting period as well as actual accomplishment in terms of output volumes and unit costs.

Commitment and accrual data

For appropriation and allotment control, it is desirable to enter all undischarged commitments in the financial reporting system to provide information on commitments to those officers responsible for requisitioning payments under section 26 of the *Financial Administration Act*. Normally, detailed commitment records are kept centrally, and responsibility centre managers should rely primarily on reports that compare actual and planned expenditures to ensure against over-commitment. However, detailed information on commitments should be readily available to the responsibility centre manager on request.

Accounts payable will also need to be entered into financial reporting systems for preparing reports for management or for cost analysis. Such data can be input either by individual transactions or by period-end entries that summarize unpaid items.

Systems for Processing Data for Financial Reporting

The systems used to process data for financial reporting will vary between departments in design, number, and interrelationships. The financial reporting process illustrated in Appendix A shows the relationship of these systems, i.e. how they link up the data input with the reports that are the products of the financial reporting process.

The division between the principal accounting system and the reporting system shown in Appendix A is conceptual only, and no clear distinction between such systems can be made in practice. An accounting system is a device for classifying and storing data until such time as reporting is required. Although accounting systems may vary greatly in form and complexity, all accounting involves three main processes: first, preparing source documents to execute, identify, and substantiate transactions; second, recording transactions in books or other records of original entry to provide a permanent record and to facilitate summarization; and third, posting

transactions, individually or in groups, to ledgers where transactions of a similar nature are accumulated so that summary data are readily available for reporting or for further analysis.

Some accounting systems are relatively simple—for example, when receipts and disbursements can be identified immediately in relation to the various accounts in which they will ultimately be recorded. This is normally possible when only costs of input are determined. When output is to be costed, information reported initially may have to be analysed and redistributed. For example, payroll or materiel costs may have to be accumulated in ledger accounts until data become available from time or materiel distribution systems to provide a basis for accounting entries to redistribute costs. Similarly, when certain activities are centralized and provided on a common service basis—for example, computer services or workshops—accounting systems are required to accumulate costs until services to which those costs can be allocated are rendered. When such systems are an integral part of the reporting process, one can have greater confidence that the costs of the common services are identified, and that all costs are ultimately allocated. Reports produced from such integrated systems are also more comprehensive and useful.

When there is provision for reporting operational data, there must be means of inputting them to the systems used for reporting financial data. Normally, operational data come from a variety of sources. They can be input to the principal accounting system in summary form, or the accounting system itself can be used to accumulate individual transactions. The standards of accuracy, timeliness, and authority that are required for financial data are also necessary for operational data, and it is desirable that those responsible for the financial reporting system participate in the design of the systems that generate operational data.

Information Available from the Financial Reporting Process

The ability of a department to report data is determined by the means of classification used for recording, processing, and storing individual transactions. As stated earlier, the reporting system described in this chapter presupposes that each individual transaction will be classified by activity, responsibility, and object. Thus, the information that can be produced is closely related to these principal classifications.

Responsibility information

The delegation of spending authority to responsibility centre managers should be supported by an appropriate financial reporting system. Such a system must provide the lowest levels of responsibility (when contracts are entered into and accounts are approved for payment) with detail on actual transactions, which can be related to their original budgetary requests. In addition, supervisory managers must be able to determine whether responsibility centre managers are staying within the aggregate budgetary constraints. The information needs of both levels are similar, although the level of detail is reduced as more information is consolidated for supervisory managers. The presentation for progressively higher levels of supervision must also be simplified to convey to each level of management only those data which they can and wish to utilize.

Activity information

All responsibility centres require information on activity elements. In addition, special reports are usually required to facilitate comparison of activity costs among responsibility centres and to provide detailed cost data so that the efficiency and effectiveness of projects and processes can be compared. Such data are particularly useful in planning future projects.

Appropriation and allotment control information

Parliament votes funds on a cash basis, with authority normally lapsing at the end of the fiscal year. It is therefore necessary to manage cash closely in relation to each appropriation. Treasury Board also restricts, to some degree, departmental flexibility in using funds by creating allotments within each appropriation. Such individual appropriations and allotments usually encompass an area of government operations that involve a number of responsibility centre managers and supporting financial services offices. Information is required by officers that have payment authority so that they can ensure that they stay within the limits of the suballotments for which they are responsible.

Information for central agencies

To discharge the Receiver General's statutory responsibilities and to satisfy the requirements of other central agencies for data for economic analysis, a number of reports are prepared in the central financial reporting system of the Department of Supply and Services. These reports and the appropriation and allotment information described above provide data for reporting in the *Public Accounts*. Because central information requirements are either the responsibility of or of interest to a limited number of departments and agencies, this guide does not discuss them in detail.

Other information

Most financial reports can be prepared by using computer facilities, but financial officers should use manual reporting techniques when a computer report may be either confusing to the recipient or too costly. Significant totals can be transcribed from computer reports to a standard form to display significant information succinctly—for example, office-by-office comparisons or percentage completion. Although the illustrations presented in this chapter are either in tabular or graphic form, the possibility of using narrative financial reports should not be overlooked. Narrative reports are normally prepared for special purposes. They are suitable for providing information on intangible goods or services, explaining subtle discrepancies, clarifying details obscured in summary reports, interpreting variances, and indicating necessary corrective action.

3. Financial Reporting Output

Types of Financial Reports

The organizational structure of departments varies greatly, but the following types of managers are recognized in this chapter for determining financial reporting requirements:

responsibility centre managers. Persons who are directly responsible for spending a portion of a department's appropriations.

supervisory managers. Deputy heads and all other departmental managers who supervise one or more responsibility centre managers.

staff advisers. Persons who have functional responsibility for an activity but not direct, or line, responsibility. They generally act in a staff role to a supervisory manager and assist him by advising on and evaluating the manner in which funds are spent by his subordinates. Activity coordination in this sense may be found at more than one level in an organization.

financial officers. Persons who generally act in a staff role to supervisory managers and assist them by advising on the financial implications of managerial plans and policies. Among their other duties, they have primary responsibility for appropriation and allotment control and for requisitioning payments under the authority of section 26 of the *Financial Administration Act.*

financial support staff. Persons who are responsible for checking the accuracy of reports and who are available to analyse data on financial reports when any of the above levels of management require further detail than is provided in reports.

These designations are used in this chapter to facilitate the description of their different reporting requirements. It should be noted that any manager may take on more than one role. Supervisory managers and staff advisers may have direct financial responsibility for funds to satisfy their requirements and thus will also function as responsibility centre managers. A supervisory manager without supporting staff advisers assumes both roles, as well as those of a responsibility centre manager.

The five distinct roles are identified because each type of manager has a different need for financial information, which warrants a different display of information even though it all flows from the same reporting system. Exhibit A of Appendix B illustrates how the financial reports of the five types of recipients relate to each other.

Responsibility centre manager's report

A responsibility centre manager should receive information in summary form on the costs of the various activity elements for which he is responsible and on the reporting objects describing the resources required to carry them out. This is illustrated in Appendix B (Exhibit B). Because actual costs are compared to planned expenditures, it should not be necessary to detail the resources assigned to each activity element: these should be made available to the managers by supporting financial staff whenever they wish to analyse variances from plan.

Most responsibility centre managers need not be directly concerned with managing cash appropriations and allotments. Generally, this responsibility can be placed on those financial officers who have been given authority to requisition payments under section 26 of the *Financial Administration Act*. The prime concern of responsibi-

lity centre managers should be to adhere to their operating budgets, relying on financial officers to control cash flow, and they therefore should not require allotment control reports.

Supervisory manager's report

This report, which is illustrated in Appendix B (Exhibit C), summarizes financial transactions of all the responsibility centre managers, including those of the supervisory manager and his staff.

The report is a three-part summary by activity elements (or aggregations of such elements), by responsibility centres, and by reporting objects. These three types of information are necessary for all levels of supervision, although the amount of detail should decrease as the responsibilities of a manager broaden, requiring him to devote his attention to significant items only.

The first part of the summary, which shows expenditures by activity elements, indicates whether the supervisory manager and his subordinates meet departmental expectations of operational performance. The second part shows the manner in which the supervisory manager's immediate subordinates are managing all their responsibilities. This will indicate whether corrective action is necessary to stay within budgetary constraints for the supervisor's entire area of responsibility. The final part shows the resources that the managers and their subordinates are using. It should be noted that activity and object information is not shown for each of the subordinates on the theory that the supervisory manager should be concerned with such details only on an exception basis, when operations deviate from plan.

Staff adviser's report

As explained above, a staff adviser is a specialist who advises a supervisory manager, at any level in the department, on a specified activity. In most departments administrative or supporting functions, such as finance and personnel, are decentralized, so that a review of the activity can be obtained only by consolidating information that is within the direct responsibility of several supervising managers. When all departmental activities within regions are centralized under regional managers, the headquarters adviser, who is responsible for coordinating an activity, must receive information that aggregates the financial information for that activity. In both cases the staff advisers need an activity summary for each of the subordinate centres that reports directly to the supervisory managers whom they advise. The type of report they should receive is illustrated in Appendix B (Exhibit D).

The summary statement is required to provide concise activity information for all responsibility centres engaged in the activity. With these data the advisers can determine whether the organization is achieving its activity plans. If variances are detected, they can direct their attention to the subordinate-level reports, which are in the same form as the summary report to facilitate analysis. The subordinate-level reports also make it possible to compare costs and individual performance, and to detect trends.

Financial officer's report

Financial officers have responsibility for maintaining appropriation and allotment control. Accordingly, they need reports that show for each of the responsibility centre managers they service, the amounts allotted, disbursements to date, undischarged commitments, and free balances. The type of report required by financial officers is illustrated in Appendix B (Exhibit E). By showing the trend in cash disbursements, it assists financial officers in preparing cash forecasts.

Other reports may be required by financial officers to facilitate advising on the financial implications of managerial plans and performance. Data required for this purpose will normally be available from copies of reports provided to other officers or from the detailed data in the possession of the financial staff.

Senior financial officers will require a separate summary statement for each financial officer under their direction or functional authority. This report should be similar to the one required by other staff advisers and is illustrated in Appendix B (Exhibit D).

Financial support-staff reports

The information received by financial support staff consists primarily of listings showing transactions pertaining to the various responsibility centres that they support. In computerized systems these listings are really transcriptions of the detailed accountings records. No illustration is provided because their format is not particularly important.

These listings, however, should be used to verify that all entries are proper charges to the respective accounts and to provide analytical information routinely or on request.

Special reports

Frequently, line managers have particular management information requirements that are not well served by the traditional types of reports. The data may be very similar to those contained in other reports, but the management approach is different and a different style is therefore required. Exhibit F of Appendix B illustrates a report that shows operating results in graphic form and provides a single word to identify project status based on data contained in the accounting system: red for review and report; yellow for review but report only if necessary; and green for not necessary to review.

The exhibits in Appendix B are designed to illustrate a number of good reporting practices. These exhibits are for guidance only and would require modification to satisfy the specific requirements of most departments. To facilitate the understanding of financial reports, they should be documented in the departmental financial manual as to form, content, and use.

Minimum Standards for Financial Reports

The following is a list of minimum standards that financial reports are expected to meet:

accountability. The manager who is accountable and the extent of the responsibility identified in the report should be clearly shown by including the manager's title, area of responsibility, and the period covered.

simplicity. Reports should present information concisely, avoiding unnecessary details such as subtotals or figures that do not add to the reader's understanding and that can be easily calculated if required. In the exhibits only three columns are shown: actual performance to date, variances to date, and annual plan. Current-period data could be added but this is rarely needed in government, where concern is more with year-to-date figures because financial authority is granted annually. Headings that readily identify the content of columns are used.

consistency. Consistent and accepted terminology should be used to promote clarity and usefulness. The financial data reported should be derived from accounts that are maintained on a consistent basis from period to period; significant changes in accounting policies or methods and their effects should be clearly explained.

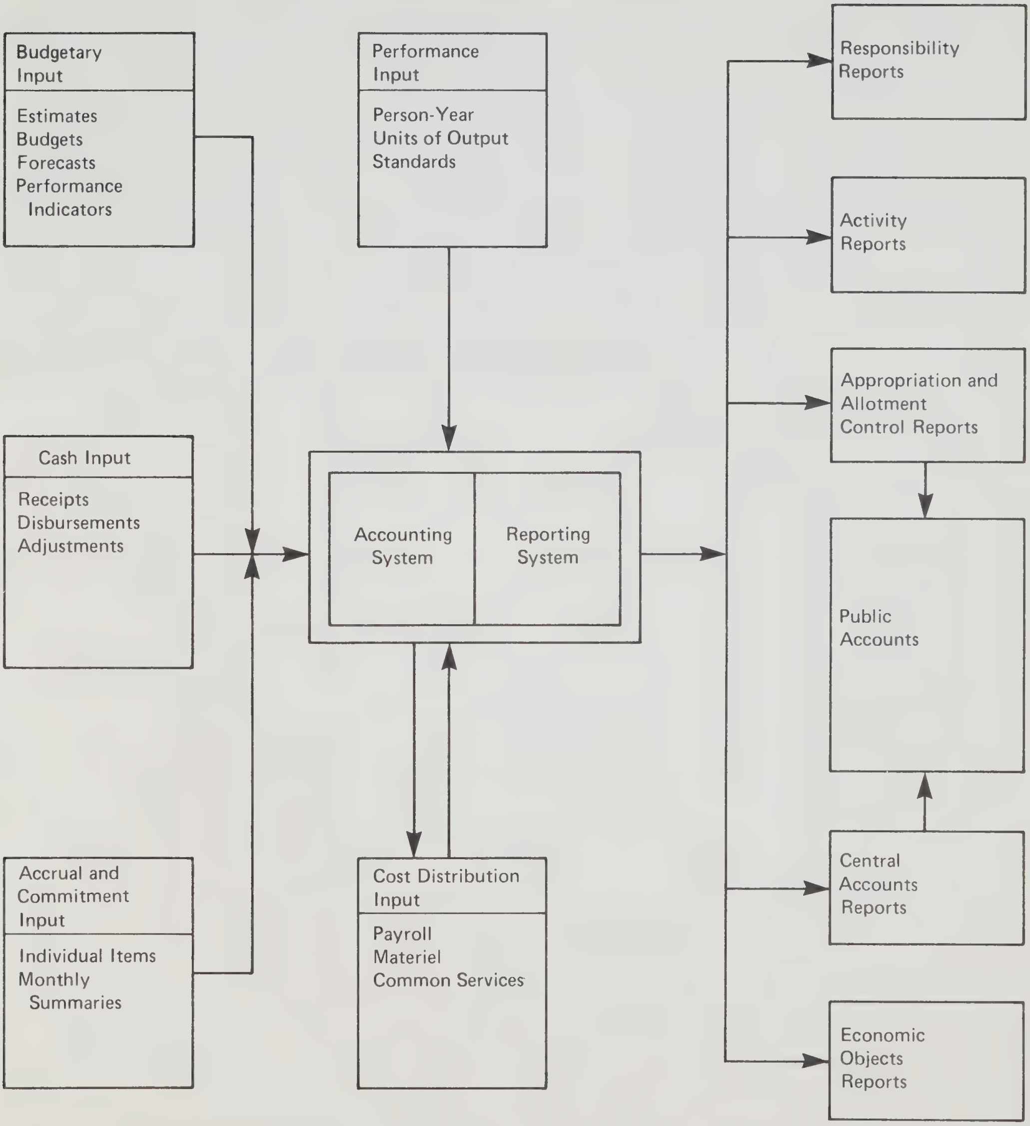
timeliness. To be of maximum usefulness, financial information should be in the hands of managers as promptly as is physically and economically possible. For adequate control over appropriations and in exercising commitment authority, up-to-date information on free balances is required. Reports that relate to a specific period such as a month or a quarter should be produced and distributed within a few days of the period-end cut-off.

accuracy. All financial data presented should be accurate and reliable to ensure that the reports are useful to their recipients. Reasonable estimates may be included, however, when providing precise figures would be impractical, uneconomical, unnecessary, or too time-consuming. Any estimates used should be clearly identified as such.

completeness. Information shown in reports should be complete for the period being reported. Period-end cut-off dates that are early or rigid can result in the omission of significant information relating to the accounting period.

Appendix A Financial Reporting Process

Exhibit A
Illustration of Financial Reporting Process



Appendix B Examples of Financial Reports

Exhibit A
Interrelationships of Financial Reports

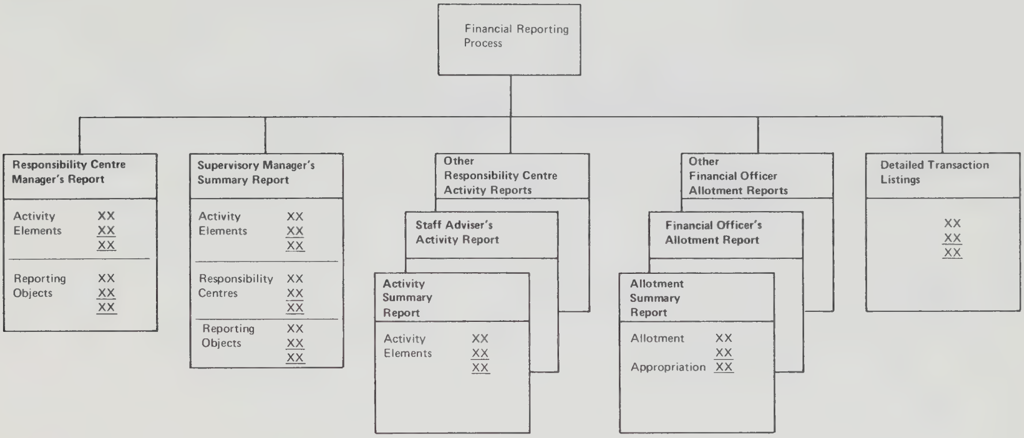


Exhibit B

Responsibility Centre Manager's Report

Responsibility Centre ______________________ As at ______________

	Actual to Date			Variance to Date			Annual Plan		
	Cost $00s	Volume	Unit Cost	Cost $00s	Volume	Unit Cost	Cost $00s	Volume	Unit Cost
Subactivity A Element 1 Element 2 etc.									
Subtotal									
Subactivity B Element 1 Element 2 etc.									
Subtotal									
Activity Total									
	$	Person-Years		$	Person-Years		$	Person-Years	
Personnel Salaries and Wages Extra Duty Pay etc.									
Subtotal									
Goods and Services Travel Utilities etc.									
Subtotal									
Reporting Objects Total					Per Cent				

Exhibit C

Supervisory Manager's Report

Responsibility Centre ____________________ As at ____________

	Actual to Date			Variance to Date			Annual Plan		
	Cost ($00s)	Volume	Unit Cost	Cost ($00s)	Volume	Unit Cost	Cost ($00s)	Volume	Unit Cost
Subactivity A Element 1 Element 2 etc.									
Subtotal									
Subactivity B Element 1 Element 2 etc.									
Subtotal									
Activity Total									
	($000s)			$000s	Per Cent		$000s		
Responsibility Centres Centre 1 Centre 2 etc.									
Responsibility Total									
	$	Person-Years		$	Person-Years		$	Person-Years	
Personnel Salaries and Wages Extra Duty Pay etc.									
Subtotal									
Goods and Services Travel Utilities etc.									
Subtotal					Per Cent				
Reporting Objects Total									

Exhibit D

Staff Adviser's Activity Report

Activity Summary for ______________________________ As at ______________

	Actual to Date			Variance to Date			Annual Plan		
	Cost ($000s)	Volume	Unit Cost	Cost ($000s)	Volume	Unit Cost	Cost ($000s)	Volume	Unit Cost
Subactivity X									
Element 1									
Element 2									
etc.									
Subtotal									
Subactivity Y									
Element 1									
Element 2									
etc.									
Subtotal									
Subactivity Z									
Element 1									
Element 2									
etc.									
Subtotal									
Total Activity									

Exhibit E

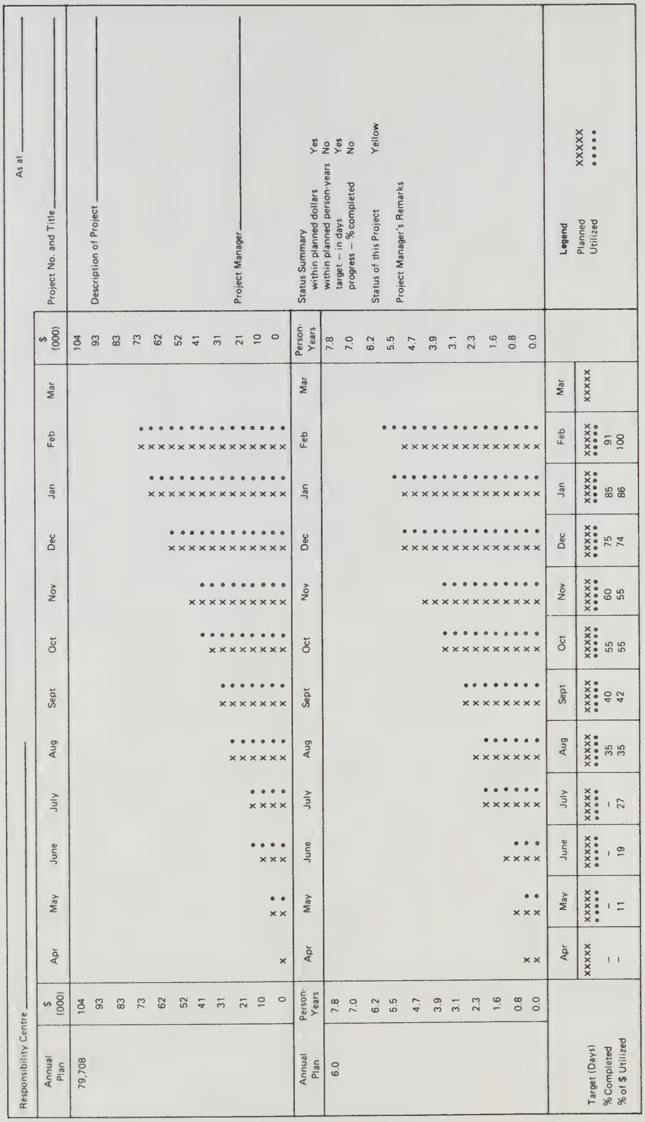
Financial Officer's Allotment Report

Financial Officer's Title ____________________ As at ____________

	Annual Estimates	Expenditures to Date	Outstanding Commitments	Free Balance
Allotment 1				
Suballotment A				
Suballotment B				
etc.				
Total				
Allotment 2				
Suballotment A				
Suballotment B				
etc.				
Total				
Allotment 3				
Suballotment A				
Suballotment B				
etc.				
Total				
Appropriation Total				

Exhibit F

Progress Report of a Responsibility Centre Project



	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Target (Days)	XXXXX	XXXXX •••••	XXXXX •••••	XXXXX •••••	XXXXX •••••	XXXXX •••••	XXXXX •••••	XXXXX •••••	XXXXX •••••	XXXXX •••••	XXXXX •••••	XXXXX
% Completed	–	–	–	–	35	40	55	60	75	85	91	
% of $ Utilized	–	11	19	27	35	42	55	55	74	86	100	

Chapter 8
Financial Systems and Controls

1. Directives and Guidelines

Directives

- Departmental financial systems shall be designed, maintained, and operated so as to provide to the Department of Supply and Services on a timely and accurate basis, the information required for the discharge of its Receiver General responsibilities relating to the Consolidated Revenue Fund and the accounts of Canada.

- Departments shall establish and maintain adequate controls within their systems to ensure the completeness, accuracy, and authority of all financial information and of all other information that forms the basis for calculation of financial information or is used for management control and accountability.

- Departments shall ensure that suitably qualified financial personnel are directly involved in all phases of development of financial administrative systems and in the definition of controls within program-related systems.

Guidelines

- Properly authorized journal vouchers or requisitions for payment by cheque, interdepartmental settlement advice, or other payment instrument should be forwarded promptly and directly to the appropriate office of the Department of Supply and Services, thereby expediting the processing of transactions.

- Where cost-effective, departmental systems should be integrated with each other and interface with Receiver General systems to avoid duplication of effort and to ensure the completeness and consistency of all data reported.

- Departmental financial systems should be designed to permit the periodic entry and reporting of information on undischarged commitments so that officers exercising financial signing authorities may know the amounts of undischarged commitments and free balances for each appropriation and allotment.

- Departmental financial systems should be designed to provide timely, accurate, and meaningful information on the activity elements involved in carrying out departmental programs. Accrual information should be entered into financial systems where necessary, in order to meet this objective.

- Departments should investigate the use of existing financial systems of the Department of Supply and Services, other government departments, or commercial suppliers before considering the development of new financial systems.

- Departments should ascertain, before any major revision to a financial system is implemented or before any major new financial application is made operational, that adequate security features exist and that the internal controls have been examined and found adequate by qualified auditors who are independent of the suppliers and users of the system.

- When a separate service organization is responsible for a departmental financial system, or an element of such a system, the department being serviced should take whatever steps necessary to ensure the adequacy of the system, its operating environment, and its products.

- For all significant systems projects, departments should apply the standards for management and control of EDP projects or their equivalent.

2. Introduction

This chapter is devoted to the practical application of accounting principles and standards for control in departments and agencies and includes:

— a description of accounting systems in the Government of Canada;
— practices for accounting for expenditures on a cash, commitment, accrual, and cost basis;
— practices to be applied in establishing and maintaining a code of accounts; and
— the controls required to ensure the completeness, accuracy, and authority of financial records.

For the purposes of this chapter the following terms are defined:

financial systems are systems through which financial information is used to account for the operations of an organization, to control its assets and liabilities, and to exercise management control and accountability. These systems encompass both financial administrative systems and program-related financial systems.

financial administrative systems are those financial systems which the financial element of an organization uses to meet its responsibility for financial administration.

program-related financial systems are those financial systems which the program managers of an organization use to meet their responsibilities as program managers.

program-related systems are those systems which are required for the operational or technical needs of a program and which are the primary responsibility of the program managers of an organization.

phases of systems development are as defined in the *Administrative Policy Manual*, Chapter 440, entitled "Electronic Data Processing".

Responsibility for accounting in the Government of Canada is divided. Some reponsibilities are allocated to the Receiver General; others are allocated to individual departments and agencies; and Treasury Board has authority to prescribe the manner and form of the accounts of Canada and of departmental accounts.

Departments are responsible for establishing and maintaining adequate systems to account for, control, and report on financial, human, and physical resources within their purview. These systems include not only the main departmental accounting system and related subsidiary systems but all systems directly or indirectly linked with the authorization and recording of expenditures, the collection and recording of revenue, the accounting for custody and use of physical assets and the collection, recording, and reporting of financial or related non-financial information used in evaluating the efficiency of departmental projects and programs.

The adequacy of these systems is a matter of judgement, and therefore each situation should be assessed individually. Departments are expected to ascertain the adequacy of security and internal controls before any major new system is implemented and to periodically re-evaluate these systems as to their adequacy. Such appraisals should be performed by qualified persons independent of the suppliers and users of the system. As a minimum, a system must be maintained to satisfy the requirements of the *Financial Administration Act* and all other acts that may be applicable, the policies and regulations of Treasury Board, and the requirements of the Receiver General.

3. Financial Systems

This section describes the Receiver General systems, the central accounts, the departmental reporting services provided on a service basis by the Department of Supply and Services, and departmental financial systems.

Receiver General Systems

The Department of Supply and Services maintains a central accounting system to discharge the Receiver General's responsibilities relating to receipts into and expenditures out of the Consolidated Revenue Fund and relating to the publication of the *Public Accounts of Canada*, as well as to enable it to provide accounting services to departments.

In this central system, accounting data, both aggregate and detailed, are assembled at one central location, where information may be identified and extracted according to the diverse needs of individual users in departments and central agencies. Computers are used extensively to assist in assembling and processing the accounting detail, and the central pool of information, or data bank, is held on magnetic files. This system is supported by several subsystems that either assemble accounting data from various sources or process information extracted from the data bank.

The data bank approach may best be illustrated by comparison with the alternative approach of consolidation accounting. Consolidation accounting requires that each department or operating unit maintain a completely independent set of accounting records, and that reports on the government as a whole be prepared by consolidating information generated and reported by the individual accounting systems. A few departments have developed accounting systems that are largely independent of the central system. These impose special problems and cause some duplication of effort because transactions must be separately input to the central system and to the departmental system, and departmental accounts must be reconciled with the central accounts. To avoid these problems, departments are encouraged to develop interfaces with the central system in order that data may be exchanged in machine-readable form.

Cheque issue system

The Department of Supply and Services maintains a network of services offices across Canada, each having the capacity and authority to issue cheques for the Receiver General. All departments must prepare, authorize, and submit payment requisitions to services offices in accordance with the Account Verification and Payment Requisition Regulations laid down by Treasury Board and discussed in Chapter 9, "Accounting and Control of Expenditures".

Services offices are responsible for:

- verifying the authority of cheque requisitions;
- controlling unused cheques;
- preparing, signing, and issuing cheques;
- recording cheques issued; and
- entering cheque issue information in the central accounting system.

Services offices are located in the National Capital region, in close proximity to the departments that they serve, and in provincial capitals and other principal cities in Canada. Each office is assigned a unique series of

cheques, and cheque requisitions are forwarded to a services office for processing through computerized cheque issue and accounting routines. However, cheques that are urgently required can be manually issued. The related cheque issue and accounting information is transmitted daily in machine-readable form by electronic means to the central data bank in Ottawa.

There are minor deviations to these generalized procedures for payroll cheques, payments in foreign currencies, cheque cancellations, payments by money order, and interdepartmental settlement advices.

There are standard procedures for the redemption of all cheques issued by the Department of Supply and Services. Chartered banks present all Receiver General cheques which they have honoured each day to the Bank of Canada and its agencies, and on the same day the bank reimburses the chartered banks. On the following day, the Receiver General reimburses the Bank of Canada and the paid cheques are delivered to the Department of Supply and Services, where all Receiver General bank accounts are reconciled.

Non cheque-issue accounting system

Non cheque-issue accounting transactions include receipts and transactions recorded on journal vouchers and interdepartmental settlement advices. The procedures for entering these transactions in the central accounting system are similar to the cheque issue procedures, except that they are input to the accounting routines only and not to the cheque issue routines. Each transaction must be properly authorized and submitted to a services office in accordance with appropriate control procedures for encoding and input to the main accounting system.

Pay system

In order to meet its responsibilities for the disbursement of pay, the Department of Supply and Services operates computerized pay systems that are independent of the central accounting system. Output from these pay systems is transferred in magnetic form to the data bank of the central accounting system to provide payroll accounting information.

Government of Canada accounting data bank

The data bank is a collection of magnetic files that includes all accounting transactions input to the central accounting system. These files are available for access by the central computers.

Accounting information is received at the data bank by a variety of means. Regional services offices transmit data electronically; centralized cheque issue and pay systems provide magnetic tapes; and some special types of information, received directly from departments, may arrive on magnetic tapes, punched cards, or even on source documents requiring encoding. Transactions are assembled daily and merged weekly to produce cash statements.

Each individual accounting transaction is recorded in the data bank and is identified by a series of code numbers that include departmental accounting codes on the original source document, code numbers assigned by accounting and local services offices during the batching process, and any coding imposed by computer routines. The coding structure is standard, but it can be adapted to meet the specific requirements of each department. Through a series of specially designed control files that interpret the coding attached to transactions, a user of

the system, whether it is a department or a central agency, may specify what data are to be selected from the data bank and the format, sequence, amount of detail, and totals in which they are to be reported.

Central Accounts (Accounts of Canada)

The central accounts are maintained by the Receiver General in accordance with statutory responsibilities, one account for each appropriation as voted by Parliament and one account for each asset, liability, and reserve. The accounts are prepared by extracting from the data bank all transactions with source codes that identify cash receipts, expenditures, and transfers between appropriations. They provide the information that is reported monthly in the *Canada Gazette* and annually in the *Public Accounts*.

Specialized accounting reports are prepared in the same way to meet the needs of such organizations as the Department of Finance, the Bank of Canada, and Statistics Canada for information on the government as a whole.

Departmental Reporting Services of the Department of Supply and Services

The departmental financial reporting services provided by the Department of Supply and Services are a by-product of its cheque issue function and are based upon the data in the central accounting system data bank of the Government of Canada. As a result, any department that uses these services is relieved of any additional reporting for the central accounts of Canada because the same accounting data are used to produce departmental financial reports and reports prepared from the central accounts.

Primary responsibility for using the available services rests with client departments. The Department of Supply and Services is willing to advise client departments on their service needs and on accounting, reporting, and contracting practices.

The financial reports produced by the central accounting system generally include only cash transactions. Many departments have therefore developed supplementary accounting systems to provide reports that include additional information, such as accruals, commitments, detailed cost information, budgets, or variance analysis. This information can then be submitted to the Department of Supply and Services to be included on management reports designed for this purpose.

Departmental financial officers must develop their own accounting controls on the basis of a thorough understanding of the services being provided to their departments by the departmental reporting services of the Department of Supply and Services.

Departmental Financial Systems

Each department should ensure that the design and operation of its financial systems adequately satisfy the needs of management for financial information at all levels in government. Although departmental financial systems must be compatible with the needs of the central accounts, this should not prevent the departmental systems from meeting the needs of management. Information such as accruals, commitment totals, forecasts, person-year utilization, detailed costs, and asset values can be provided without conflict with central requirements.

Most departments use, to varying degrees, the financial reporting services provided by the Department of Supply and Services. It is the principal accounting system used for controlling appropriations and is the one to which other systems are reconciled.

Subsidiary accounting systems have been developed in many departments for specialized types of reporting, such as cost, person-year, inventory, accounts receivable, allotment, and commitment. These systems provide alternative or more detailed analysis of financial information, which is either reported separately or through input to the principal departmental reporting system.

Separate financial systems have been developed by a number of organizations within the public service, including several major departments. For these departments, expenditures by appropriation and revenues are available for input to the central accounts of the government through the cheque issue and cash receipt systems, but detailed accounting information is not reported by the central system, as is the case for other departments. Detailed accounting analysis is independently performed by the departmental financial system and is then reported by that system in form and detail suitable for central consolidation with data from other departments for preparing reports for the government as a whole.

Where separate departmental financial systems are developed to record and report cash transaction data using electronic data processing, then, whenever practical, interfaces should be developed with the Department of Supply and Services to exchange these data in machine-readable form. The data processed by the departmental system and Receiver General systems should be reconciled on a regular basis.

Integration of departmentally operated financial systems

All financial and financially related systems in a department must achieve the fullest practicable degree of integration with each other to avoid duplicate data capture and storage, and problems in reconciliation.

The operation of two or more unintegrated financial systems for one department is not conducive to good, cooperative, coordinated management and may create barriers to effective communication if information provided by one system is not in agreement with another.

Where such systems exist, a consistent accounting cut-off date for the common data should be maintained. Where some data are common to separate systems and others are not, the data types must be adequately identified to facilitate reconciliation. Appropriate controls should exist in all systems to ensure that the information being entered is accurate and complete.

In the present context, integrated systems are those with the ability to share common data, so that source data are entered only once in machine-readable form and are stored where they can be accessed by any departmental system requiring them. Where full integration has not been achieved, these common data should be exchanged between systems in machine-readable form, when it is practical to do so.

Interface with the central accounting system

Where computerized departmental accounting systems exist, every effort should be made to develop interfaces with the central accounting system. This involves submitting data to the Department of Supply and Services on magnetic tape or some other machine-readable medium in a form that can be accepted by the central system. Conversely, data may be provided by the Department of Supply and Services in a form acceptable to departmental systems.

Use of control accounts

A control account is an account in one accounting system whose balance at any point in time is equal to the total of the balances of all the detailed accounts in a subsidiary system. In well-designed computer, mechanical, and manual accounting systems the accounting entries of a subsidiary system are simultaneously posted directly, or accumulated for subsequent posting in total, to the control account of the principal system. The use of the control account device provides a means of ensuring that the two systems are in agreement.

The account maintained for each parliamentary appropriation in the central accounts of the government may be regarded as a control account that is supported by a number of detailed accounts in the departmental accounting system.

Where there are subsidiary accounting systems for such items as accountable advances, inventories, accounts receivable, loans, interest, grants and contributions, securities on deposit, and imprest accounts, the principal accounting system should contain control accounts. For example, one account showing the value of inventories in stock that would be supported by detailed inventory records can be maintained in the departmental accounts. In some circumstances the subsidiary records may not be a normal accounting record but an open file of source documents, such as commitments or accounts receivable.

All control account balances should be independently and regularly agreed to the totals of balances in the subsidiary accounting systems. Specifically, each department is required to reconcile on a monthly basis the cash accounting information in its principal accounting system with the central accounts kept by the Department of Supply and Services. Generally, other control accounts should be reconciled monthly, but daily, weekly, quarterly, or even annual reconciliations may be appropriate in some circumstances. When the control accounts do not agree with the subsidiary system, the differences should be identified and corrected. Because reconciliations become increasingly difficult the longer they are postponed, they should all be regularly reviewed and approved by supervisory financial officers.

Responsibility when service organizations are used

When a departmental financial system, or some element of such a system, is designed or operated by a separate service organization, the department being serviced should take whatever steps are necessary to ensure the adequacy of the design, operating environment, and products of the system. This is not intended to be restrictive, because the use of common service organizations is frequently an efficient and economical alternative that should be encouraged. However, the department being serviced is ultimately responsible for the completeness, accuracy, and authority of its accounting records and must therefore assure itself that it has adequate means for assessing the reliability of the system and for performing the appropriate supplementary internal controls.

When a department assigns elements of its accounting responsibilities to a service organization, such a delegation should be the subject of a written agreement, authorized by the senior financial officer of the department and specifying precisely what services are provided, at what cost, and what responsibilities are assumed by the service organization for accounting and internal control. Normally, the agreement should also specify the rights of the department being serviced to obtain information on:

- the design and operation of the systems operated on its behalf by the servicing organization;
- any amendments made to these systems; and
- the results of independent audits of these systems.

In some cases, it may be desirable for the department being serviced to insist on the right to conduct its own audit of systems operated by the servicing organization. For practical reasons, such a provision could not be included in agreements in which the Department of Supply and Services is acting as the servicing organization. It should also be recognized that it may not be practical for the Department of Supply and Services to obtain prior approval of clients for all systems amendments; nevertheless, client departments should be promptly informed of amendments as they occur, and they should be consulted before changes are made that may affect the content of the financial information they receive. It is the responsibility of senior financial officers in departments to take whatever steps are necessary, and retain a record of these, to satisfy themselves that agreements with servicing organizations are being adhered to and are adequate in relation to departmental systems and to the requirements of this guide.

4. Timing of Recording of Transactions

In government, there are four basic methods of accounting that affect the time at which a transaction is recorded in the accounting system:

cash accounting. Accounting entries are made when funds are paid or received, or internal transactions are recorded.

commitment accounting. Accounting entries are made when a contract is entered into or an order is placed for goods or services; the entries record the amount to be reserved out of the unencumbered balance remaining in an allotment in order to honour the commitment.

accrual accounting. Accounting entries are made when goods or services are received; the entries record the receipt of the asset or service and the liability of the government to pay for these goods and services.

cost-based accounting. Accounting entries are made when goods or services are consumed; the entries record the cost of resources consumed in the accounting period in which the benefits are received.

Both commitment and cash accounting are required by statute and form the basis of the traditional system of government accounting. Commitment accounting is required to ensure that departments anticipate their expenditures so as not to exceed appropriation and allotment ceilings, and cash accounting is required to meet Parliament's needs for complete, accurate, and informative data on the cash transactions of government.

Though there is no statutory requirement that accrual and cost-based accounting be practised in government, departments should recognize that these methods of accounting may result in more useful reports for management than reports produced on a cash basis. Most definitions of accrual accounting incorporate the concept of cost-based accounting as it is described above. The distinction made in this guide between cost-based and accrual accounting is useful for government purposes because it separates conceptually the recording of accurate costs of resources consumed from the recording of assets and liabilities. The latter has less significance in government than in industry because a government's statement of assets and liabilities is not used to the same extent for financing purposes. Nevertheless, the recording of costs in a cost-based system is facilitated by accrual accounting because accrual accounting ensures that all transactions that have taken place in the period are reflected in the accounting system for inclusion in the period's costs when the related goods or services are consumed.

Cash Accounting

Cash accounting is the principal method of accounting in the Government of Canada because it provides financial information in a form that is most appropriate for requirements of parliamentary control. For certain administrative agencies it also provides information that satisfies most requirements of managerial control. Since the appropriations of the Government of Canada are provided on a cash basis, departmental accounts must be maintained in the first instance on a cash basis.

Because the Receiver General is responsible for receipts into and payments out of the Consolidated Revenue Fund, cash accounting information is readily available from the central accounting records of the Department of Supply and Services. It is important for cash transactions to be processed promptly if the information obtained from these records is to reflect all transactions that have taken place in a department. The Department of Supply and Services has offices accessible to most responsibility centres; transactions should go directly from the nearest

financial office that has authority to requisition payments on behalf of the departmental responsibility centre to the nearest services office. This will result in more timely and useful financial reports, as well as in the prompt settlement of amounts owing to persons or companies rendering services to the government.

When management has limited short-term control over costs, and unit costs do not need to be computed on a periodic basis, cash accounting systems will meet most managerial requirements, providing the system is functioning efficiently.

Commitment Accounting

The requirements for commitment accounting are outlined in Chapter 6, where the subject of budgetary control is discussed. Deputy heads have a statutory responsibility to establish commitment control systems. Departments with excess commitment authority also have a responsibility for ensuring that total commitments for current and future fiscal years do not, at any point in time during the fiscal year, exceed the limit imposed by Parliament.

While commitment accounting systems may be independent of the principal departmental accounting system, period-end data on commitments should normally be input for purposes of financial reporting. For departments that are using the departmental financial reporting services of the Department of Supply and Services, totals of commitments can be input to the departmental reporting system and automatically reversed in the following month. Commitment information can then be included or excluded from any reports prepared according to specifications set by each department.

The system may consist of an open file of commitment documents. One open file should be maintained for each subdivision for which allotment control is to be exercised. The total value of outstanding commitments in this file can be determined at any time by aggregating the documents in the files. There should be adequate accounting controls, such as sequential control of commitment documents or summary cards, to ensure the completeness, accuracy, and authority of the files.

When particular commitments are outstanding for an extended period of time or when a continuing total of commitments is essential, as in the case of capital projects, it is normally preferable to supplement an open-file system with a simple ledger or journal that identifies the balance of each undischarged commitment and the total value of outstanding commitments.

Commitment information must be readily available to officers who have spending authority and who take actions that will subsequently result in charges against the appropriation. The officers must be able to call for this information if there is any reason to believe that there is a possibility of reaching full commitment for any allotment.

The standards of completeness, accuracy, and authority applicable to all information in commitment records are the same as those applicable to any accounting system. Control procedures should be documented in the departmental financial manual accompanied by specific departmental policies on the timing and methods of recording particular types of commitments, such as operating expenses, salaries, capital expenditures, multi-year commitments, expenditures out of imprest accounts, advances, and grants and contributions.

Accrual Accounting

Departmental accounting systems should be designed to permit accrual information to be entered into the accounting records wherever it is necessary to satisfy requirements for cost-based accounting.

As explained previously, accrual accounting involves recording the receipt of an asset or service to identify the liability of the government. As usually defined, it also includes the deferring of expenses to obtain accurate identification of costs consumed during an accounting period. This aspect of accrual accounting is discussed separately in the next section under the heading of cost-based accounting.

Accrual accounting lays the basis for an accurate matching, with respect to time, of accounting information with non-accounting information and of costs against output, performance data, or revenues. Its purpose is to record all transactions that have taken place during a specific period of time, regardless of the timing of cash payments or receipts.

Because of the geographical dispersion of some departmental programs, prompt disbursement of cash is not always possible, and input of non-cash transactions may be required to record transactions pending cheque issue. Moreover, some accounts may be delayed because of discrepancies or because the information necessary for the payment to be approved is incomplete. Through accrual entries, the accounts can be adjusted to input transactions that would otherwise not have been reported through the normal cash accounting system. The extent to which accrual accounting is practised in any department must be determined by considering the additional cost of accrual practices as compared with potential benefits in terms of better cost data.

Accrual accounting must be practised in a manner that does not interfere with the operation of the cash accounting system, since financial managers at both the central and departmental levels in government need complete, accurate, and current cash information if they are to manage cash appropriations effectively. This limitation should not be restrictive, because with the effective use of accounting techniques and financial reporting systems, departments are able to provide both cash accounting and accrual accounting information without conflict, duplication, or misinterpretation. The departmental reporting services of the Department of Supply and Services enable financial reports to be prepared on both a cash and accrual basis, according to the needs of the client.

Departmental accounting systems should be designed to ensure that accounting transactions that have received managerial approval as at the date of an accounting report are included in that report. This is a minimum standard for accrual accounting. If accounting or financial reports do not reflect transactions that an operating manager knows have taken place and have been reported to an accounting office, then the financial reports will not have credibility for the manager and, with some justification, will not be used. If there is a delay in obtaining financial authorization or if the transaction cannot be processed through the cheque issue system in sufficient time, an accrual entry is required and should be input by financial staff as soon as the delay is recognized.

Departmental accounting systems should be designed to enable accruals to be recorded for goods or services that have been received or provided by the department and for which payment will occur in the future, even though an invoice or statement may not have been issued. This standard should be applied to those individual responsibility centres in a department where the result of a time difference between the date on which the goods or services are received and the date on which managerial approval is granted is likely to have a significant effect on the content or usefulness of financial reports. If one transaction is significant in amount the standard may be applied on an exception basis; if an accumulation of routine transactions is significant in amount it should be applied on a continuing basis to ensure the completeness and accuracy of the information reported.

Techniques for accrual accounting are described in Appendix A.

Cost-based Accounting

Departmental accounting systems should be designed to provide accurate, periodic cost information on the various activity elements involved in carrying out departmental programs. A cost-based accounting system must be integrated with the primary cash accounting system of a department to ensure the completeness of the cost information and to minimize duplication.

Costs cannot be overlooked in arriving at decisions in government. With the increasing delegation of financial authority to managers at lower levels and the growing emphasis on performance of managers in attaining program objectives, there is need for consistently prepared, reliable, and timely cost information to account for the consequences of decisions. Cost information can also be used as a basis for preparing future plans and budgets; as a means of controlling, measuring, or comparing current operations; as a basis for benefit-cost analysis and make or buy decisions; and as a means of determining revenue charges. To monitor the performance of managers, periodic cost information should be available on the basic components of departmental operations, such as individual projects, tasks, services, and products.

Cost-based accounting involves choosing from among a combination of accounting techniques and methods within the constraints of certain conventions to produce cost information that is useful to management. There are many ways of computing costs, and the term *accurate cost* has meaning only when the selected techniques, methods, and conventions are known. Those who are responsible for preparing cost information must understand the uses to which the data may be put to ensure that the cost information is not misleading. Similarly, those who use cost information must have a knowledge of the basis on which it was computed. Costs have no intrinsic value; their usefulness depends wholly upon the action that management is able to take in the light of the information they reveal. For example, if cost information is to be used to support a make or buy decision involving an entirely new operation of government, it is desirable to include all appropriate overhead in the costs, whereas if the make or buy decision involves an existing government operation, sunk costs should be ignored. It is important to include only those costs which are relevant to management decisions or to actions which may result.

Consistent application of accounting conventions is of prime importance and is essential when cost information is to be used for comparing costs over a period of time or for comparing two or more alternatives at a given point in time. Frequently, a record of costs over a period of time, if established consistently, may be an extremely useful indicator to management even though, in absolute terms, the costs may not be complete.

It is primarily the responsibility of financial officers to identify the needs for cost information in their departments, to suggest techniques that will satisfy these needs, and, with the concurrence of management, to implement those techniques. Operating managers will often recognize the need for cost information or its potential benefits and usefulness but they should not be expected to determine or apply the various techniques to obtain the information they require. However, no cost data should be developed without the full concurrence of the appropriate manager, who must know what costs are included, how accurately they are computed, the degree to which they can be meaningfully matched with non-financial information such as performance indicators, and any limitations. Moreover, the financial officer should normally seek to provide data that have the confidence of line management, and this can only be done by utilizing techniques that are based on sound, observable, objective data, most of which originate with the line manager.

It is also the responsibility of the financial officer to support management by analysing and interpreting cost information. This includes explaining variances in terms of price, volume, and efficiency, when this is practical.

Techniques for allocating and identifying costs are described in Appendix B.

5. Mechanics of Coding Systems

All departments must establish a code of accounts that will enable financial information to be analysed in accordance with the object, activity, and responsibility structures of the department; with the needs of operating and financial managers for supplementary cost, asset, liability, or other financial information; and with the requirements of the central accounts or of central agencies. The code of accounts must also recognize the needs of those responsible for processing accounting transactions. The Department of Supply and Services can render better services to departments if the departments they service establish codes of accounts that follow a consistent pattern.

The code of accounts is the means by which each specific transaction is identified, with the accounting codes used to accumulate aggregate data in the accounting system. It therefore determines the information that can be obtained from the accounting records.

Description of Code of Accounts

The total code of accounts includes a portion that is set by the Department of Supply and Services and a portion that is set by individual departments.

Certain standard codes are assigned on each accounting transaction through the batch control procedures of the Department of Supply and Services to ensure that cash and non-cash transactions are separately identified and that accounting trails are maintained on all transactions in the system. These codes identify the department, the local services office, the batch, and the source.

Other codes are assigned by departments, which have each developed their own code of accounts, with the numbering system and block format that they consider most appropriate. Management Improvement Policy MI-8-66, a summary of which is included in Chapter 4, "Classification of Accounts", includes the following restrictions:

- the central accounting system must be able to identify the parliamentary appropriation, revenue, asset, or liability account to which a transaction is to be charged in the central accounts;
- the departmental line objects or resource codes, which are the lowest level of analysis by object in each department, should be compatible with the economic objects, which are the lowest level of analysis by object for the government as a whole;
- the coding fields must be arranged in a prescribed sequence;
- the total number of digits in any one field must not exceed nine; and
- the total number of digits in the coding block must not exceed 25.

Within these limits, each department has developed a code of accounts and a coding block that normally identify the following:

- the parliamentary appropriation (the vote), Treasury Board allotment, or revenue, asset, or liability account;
- the organizational unit to which the transaction should properly be charged or credited (the responsibility centre or the cost centre);
- the purpose or the lowest level of subactivity to which the transaction should properly be charged or credited (the activity);
- the nature of the goods or services acquired or consumed, or the nature of revenue earned or received (the object); and

— the cost account, operation, project, process, element, task, item, job, committee, geographical region, consumer or product group, individual, or any other particular analysis that may be appropriate and that does not constitute an activity, a responsibility or cost centre, or an object of expenditure (optional codes).

Use of Collator Codes

The use of collator numbers is a useful method of simplifying the task of coding accounting documents, increasing the flexibility of the coding system, and reducing the possibility for error. At any single responsibility centre, most of the digits in the expenditure coding classification tend to be the same for all transactions. For example, all expenditures generally have the same codes for the program, parliamentary vote, subvote, responsibility centre number, main activity, and first level of subactivity. Any one of these fields of information can be up to nine digits in length, but they collectively total 12 digits for most departments. If a collator code is used, one collator number of four or five digits can be substituted for the 12 digits when coding transactions. Later, during electronic processing, the collator code can be interpreted to impose the full code of accounts on each transaction exactly as if the detailed coding were assigned on each input document.

There are many advantages to using collator codes:

— The amount of manual coding required on each source document is reduced and simplified; errors are less likely to occur in departments when the codes are assigned to source documents, and in computer centres when data are converted by keypunching or encoding to computer input.
— Certain inconsistencies that frequently arise through undetected coding errors are eliminated, as for example, when activity totals do not agree with responsibility totals within the same responsibility centre.
— Collator codes can be established in a sequence that facilitates use by clerical personnel and operating managers in a responsibility centre and frees them from any need to acquire a knowledge of the complete departmental code of accounts.
— Collator codes facilitate the editing of input data during computer processing because if a collator is valid, the imposed coding will also be valid, and the majority of invalid items will be rejected at one stage in the processing rather than at several stages as a transaction is processed through a variety of computer routines.
— The departmental coding that may be input to the Department of Supply and Services is restricted to a maximum of 25 digits. If necessary, and with the use of collators, this can be increased during processing by at least 50 digits. This facility permits a substantial amount of special financial or cost analysis to be performed.

If collators are used, each responsibility centre will usually require one collator for each of the lowest levels of subactivity in which it participates and when required, one collator for each revenue, asset, and liability account.

Circulation of Code of Accounts

All departments should fully document the code of accounts in a comprehensive coding manual that should be a part of the departmental financial manual. The manual should explain the use and significance of each field in the departmental code of accounts; it should explain any special actions or unusual treatment required on any contra, asset, or suspense accounts; and it should list all the valid codes for the department, with adequate narrative descriptions of each code so that the manual may serve as an authoritative reference for all financial and other officers using the code of accounts. One copy of this manual should be available for reference in each office where coding is performed.

The manual should be supplemented with a code of accounts tailored to each responsibility centre to provide a simple and ready reference of all codes likely to be required by each responsibility centre manager and clerk performing a coding function. All supplementary lists should refer to the manual for advice on unusual transactions.

Special procedures are required to ensure that the departmental coding manual and the code of accounts list are up to date and that participants, including personnel and purchasing units, are advised of all amendments. Each page of the coding manual and the list should be given an effective date, and the coding manual should be updated at least annually.

Uniform Departmental Coding Block

While there is no requirement that all departments use a uniform coding block, departments should cooperate with the Department of Supply and Services in eliminating unnecessary variations. By using collator codes effectively, each department should be able to fulfil its own requirements for a unique code of accounts, but within a uniform coding structure.

6. Controls in Financial Systems

All systems that collect, record, and report financial or related non-financial information must include controls to ensure the integrity of the information in the system.

Controls must be an integral part of a system to ensure that all transactions are entered and processed accurately, and that only properly authorized information will be accepted by the system. The standards of accuracy and authority required for financial transaction data apply equally to operational data.

To determine the adequacy of the controls a thorough assessment must be made of the contribution and significance of each control operating within the complete system, and in accordance with the significance of the information being processed, the potential for error, the materiality of errors that may ensue, and the cost of maintaining the required control.

There are a number of well-established techniques of control that should be understood by all financial officers and personnel involved in developing and operating financial systems, for it is their responsibility to select the most suitable combination of controls for each system. Where part of the financial system is computerized, manual controls must be designed to complement electronic controls to ensure that there are no gaps, to avoid unnecessary duplication, and to maintain control as economically as possible.

Evidence of the performance of each control is the only practical basis on which to ensure that controls are being maintained. A signature is the most desirable form of evidence of work performed, because it clearly designates who is assuming responsibility for each control function and is suitable at all levels of responsibility. A transaction should not be processed through one point in the system unless evidence is available that it has been processed through the previous stage. For example, evidence may be required that a transaction has been recorded in a subsidiary account, that the arithmetical accuracy has been checked, that certain data have been matched to another source, or that particular approvals have been obtained. Evidence should also be provided to supervisors and managers that certain of the non-processing controls are being maintained—for example, that required reconciliations and balancing procedures are being performed. Controls established electronically by a computer should also be evidenced through a combination of special print-outs to operators or users, and by periodic confirmation or testing of the programs involved.

Errors can occur at all stages in a financial system. The types of errors that are likely to arise out of manual operations include errors in transcription of information from one document to another, errors in additions and calculations, errors in assigning accounting or other reference codes, omission or loss of transactions or of significant data on a transaction, and duplications. The types of errors which are likely to arise in a computer environment include mechanical errors, errors from electrical malfunctions, errors in computer programming, inaccuracies, duplication, or omissions of data in processing, and loss or damage to files containing financial information.

With the growth of responsibility accounting on a decentralized basis and the maximum use of common services, it is increasingly necessary to have controls to ensure that transactions chargeable to one responsibility centre, to one accounting office, or to one department cannot be charged to another, either intentionally or in error.

In any system, controls should be established as early as is practicable in the system, and once established, should be maintained through all stages of manual, mechanical, and electronic processing. In most systems this will require combinations of control techniques performed manually and electronically.

In simpler systems, it may be practical to establish a verifiable value on data at the time of input, and to confirm this value at the time of output. However, in most systems, an integrated combination of manually or electronically performed controls will be required. As a transaction is processed through the system, an established control condition should not be dropped before a complementary control condition has been established, thereby ensuring that integrity is maintained at all times.

Techniques for control in a computer systems environment are set out in Appendix C. Many of these techniques for control are equally applicable to manual systems.

Appendix A Techniques for Accrual Accounting

Introduction

This appendix describes some techniques appropriate for introduction at responsibility centres for accruing costs with respect to goods or services. It also draws attention to the need to ascertain the adequacy of present automatic payroll accruals.

Principles

Accounting records should be kept primarily on a cash basis, with month-end accruals being entered when the usefulness of the reports is thereby improved. A full accrual accounting system as is frequently found in industry, where most transactions are entered into the accounting records when the goods or services are received, will not normally be necessary for most government departments.

Month-end accrual entries should be automatically reversed in the following month. In this way, all cash payments can be processed as direct charges to the responsibility centre, and there is no need to be concerned whether the individual transaction was recorded previously as an accrual. In addition, minor inaccuracies or omissions in determining accruals will cancel out and thereby not create any difficulties in subsequent periods.

Communication

Managers of responsibility centres should be responsible for originating accruals and should be provided with a document for communicating their accruals to accounting offices at the end of each month. This document should be suitable for direct input to the accounting system after approval of the manager concerned.

Procedures should be established in accounting offices to ensure that all responsibility centres submit an accrual report, even a nil accrual report, at the end of each month.

For those departments using the departmental reporting services of the Department of Supply and Services, accruals may be input to the system and will be reversed automatically in the following month.

Sources of Accrual Information with Respect to Goods or Services

The basis for establishing month-end accruals can be satisfied through the use of an open file of accrual documents. In the case of goods received, there will generally be a shipment and/or receiving document and a purchase order available on which to base an accrual.

When there is a high volume of transactions, as would be the case for a major stores location or a warehouse, these documents should be subject to sequential or other accounting controls. It may be appropriate in such cases to maintain a control record, with a continuing balance of accruals outstanding supported by the source documents.

When there is no documentation specifically identifying the amount to be accrued in the month-end, estimates of significant amounts owing should be made, particularly in the case of purchased services. Types of accruals that should be estimated include significant charges for professional services, rentals, and travel costs.

Accruals with Respect to Payroll Costs

In accordance with the procedures outlined in Treasury Board Circular MI-1-69, dealing with monthly financial reporting of pay, a month-end accrual/deferral accounting entry is input to departmental accounting systems automatically through the pay system. This accrual, which is based on the gross cost of the most recent bi-weekly salary payroll and on the number of remaining calendar days in the month, is incomplete and, depending on a department's requirements, may be inadequate because:

- the accrual applies only to the regular salary of indeterminate, full-time, salaried employees and does not include the pay of casual and hourly employees, which, if required, must be computed by individual departments;
- the accrual does not include all adjustments, such as overtime, leave without pay, new employees, terminations, or other changes in status that occur subsequent to the payroll date;
- the actual payrolls on which the accrual is based must be prepared several days in advance of issue and therefore do not include all adjustments effective prior to the pay date; and
- an accrual based on the calendar month may not be as useful as one based on a weekly or hourly time-distribution system or on the working days in the month, particularly if periodic financial data are to be matched with non-financial data, such as performance measurements, for management information purposes.

When these shortcomings are considered significant, departments should establish alternative means of accrual accounting for payrolls by introducing accruals that are accurately computed at the end of each month, combined with whatever cost-allocation techniques are necessary.

Appendix B Techniques for Allocating and Identifying Costs

Introduction

This appendix describes some techniques for deferring or redistributing expenditures to achieve more accurate cost identification. It should be emphasized that considerations of parliamentary control limit a department's freedom to redistribute costs among votes, and when funds are provided for a purpose in a vote, such costs cannot be reallocated to other votes except on a memorandum basis.

Within a vote, departments can achieve more accurate costing by using suspense and contra accounts or memorandum allocation systems to pick up costs chargeable to other votes or fiscal years. These two alternatives are discussed first, and then techniques of standing percentage cost allocations and standard costing are described.

Suspense and Contra Accounts

Through the use of these accounts actual costs can be recorded in the accounting system at the normal time of cheque issue, and a redistribution of these costs in a more meaningful way can be achieved through supplementary accounting entries. The difference between suspense and contra accounts is illustrated as follows:

Suspense accounts are charged with actual costs arising out of cheque issue. They are credited, and the appropriate expense accounts are charged when the cost allocation is computed.

Contra accounts are charged with actual costs arising out of cheque issue. Other contra accounts are credited and the appropriate expense accounts are charged when the cost allocation is computed.

The main advantages of these alternatives are that the accounting office has full control over the amounts charged to the expense accounts, which are reported to a manager as his costs; the allocation of costs is fully integrated with the principal accounting and reporting system; and the cash basis of accounting is not significantly disrupted.

A further advantage of using contra accounts is that the gross amounts of the transactions entered into the contra accounts remain intact for subsequent reference or serve as control accounts for subsidiary ledgers.

The use of a suspense account emphasizes variances, as any amount that remains in a suspense account represents the difference between the actual costs and the computed cost allocation. If this difference is significant, there may be a major error in either the actual costs or the computed cost allocation. If the amount is not significant, the balance in the suspense account may be carried forward and eventually be disposed of at the end of the fiscal year.

The operation of suspense and contra accounts does not alter the total costs charged to responsibility centres, because the costs allocated are the same as the actual expenditures made. It is normally desirable to record the suspense and contra accounts on a separate report, used only by the accounting office, so as not to involve line management in accounting details with which they need not be concerned.

The examples that follow show the variety of uses to which suspense and contra accounts can be put in allocating costs.

Stores and materiel

A central stores responsibility centre is charged initially with the costs of materiel purchased. Other responsibility centres are charged with the cost of materiel when it is issued to them, and the stores responsibility centre is credited. In this case, the net amount in the materiel account, which in effect has become a suspense account of the responsibility centre, will represent the value of stock levels, and each responsibility centre will be charged only with the cost of materiel consumed.

Personnel costs

A suspense account in the accounting office is charged with the cost of payrolls; the account is credited when responsibility centres are charged with a computed allocation of personnel costs. The salary rates used in the cost allocation could be based on standards, averages, or estimates. The allocation could be based on time, production, or any other acceptable basis. The practice could be adopted for the department as a whole, for a group of responsibility centres, or for any individual responsibility centre that wanted to allocate pay costs.

Common services

The responsibility centre providing the service is charged with the actual costs of operating the service; other responsibility centres are charged with the computed value of services provided, and the centre providing the service is credited with the same amounts. In this instance, using a contra account would be more appropriate than using a suspense account, because both the gross costs and the allocated costs are significant information on the management reports of the service organization.

Objects of expenditure

A suspense account is charged for actual amounts paid with respect to an object of expenditure that is paid irregularly, whereas responsibility centres are charged and the suspense account is credited with a regular monthly cost allocation. This application can be used to allocate evenly costs that may be subject to uneven and uncertain periodic payments.

Memorandum Cost Allocation

Memorandum cost allocation enables an organization to achieve full costing by including in reports such items as accommodation costs, depreciation of equipment or buildings, and common service costs financed by other votes or departments. Memorandum entries are not input to the principal system for accounting for appropriations and allotments but are supplied for entry on the internal management reports or for analytical procedures, as required.

The following situations may be appropriate for the use of memorandum allocations:

— to record fixed assets that are not included in the accounts of Canada;
— to record liabilities or reserves, such as provisions for declining values in inventories, depreciation, or doubtful accounts;
— to charge depreciation to responsibility centres; and
— to record costs charged to other appropriations or fiscal years.

Standing Percentage Cost Allocation

This is a useful technique, particularly when precise allocation of costs for activities, projects, and objects is not feasible. Selected costs are identified manually or by computer as they are processed by the accounting system and are automatically allocated on the basis of predetermined percentages. When this takes place there must be established procedures for ensuring that the standing percentages are realistic and have received management approval at the time of implementation, and that the reliability of the percentages is tested at least annually. Care should be taken to allocate in this way only those costs which cannot be specifically identified.

In coding economic objects whose amounts are not significant and for which analysis by detailed economic object is impractical, expenditures can be charged to one line object and reallocated by a predetermined percentage to detailed economic objects. Food purchased for cafeterias is an example of an object that may be appropriate for allocating costs on the basis of percentages to the many component economic objects.

Standard Costing

The basic idea behind standard costing is that the accounting system will measure costs on the basis of predetermined standards and on actual costs incurred. By measuring what should be, as well as what is, more useful information is provided to management. Standard costing is particularly useful for measuring high-volume, repetitive operations in a labour-intensive organization where a significant proportion of the costs are controllable. However, the principles can frequently be applied simply, effectively, and with significant benefits in other organizations.

Standard costs should be computed by building up what the cost should be, based on a study of the individual operations, materiel components, and overhead costs. Standard costs should be realistically established so that deviations from the standard have significance; they should not be based on optimum performance under unrealistic working conditions.

If certain costs of goods and services are of particular importance to a responsibility centre and are also subject to significant price fluctuations, it may be beneficial to identify the effect of these price variances at the time of input to the accounting system. This can be done without difficulty by establishing separate accounts to record the standard cost and any variances. The price variance is identified on the source document; the standard price is allocated to one account; and the price differential is coded to the variance account. An illustration might be a stores location whose inventory records are being maintained on a standard cost basis. The cumulative price variances are useful information for materiel management, and better financial control is achieved if the physical inventory records and the principal accounting records are both maintained on a standard cost basis, because significant differences between these records can only represent physical shortages or overages, once the price variance has been eliminated.

Appendix C Techniques for Control in a Computer Systems Environment

Introduction

The control techniques that follow give guidance to financial and EDP personnel involved in the development and maintenance of financial systems. *Computer Control Guidelines*, published by the Canadian Institute of Chartered Accountants, and the volume on control of the *Systems Auditability and Control Study* of the Institute of Internal Auditors, provide further information.

Techniques for control include project management practices such as phased development, economic justification, and full documentation. These practices are required by Treasury Board directives and guidelines contained in the *Administrative Policy Manual*, Chapter 440, and are not repeated here.

Authorization and Data Preparation

- The authorization of transactions should not be performed by personnel who have custody of assets or access to records.
- Instructions for the preparation of source documents should be documented.
- Time frames should be established for the processing of source documents from the point of receipt to the input-preparation stage.
- Transmittal documents should be used to control the flow of documents from the originating source to the input-preparation stage.
- A quality review of source documents should be provided for.
- Retention time periods for original source documents should allow sufficient time for the detection and correction of errors.
- The authority to initiate source documents should be limited.
- Each source document should be assigned a number for identification purposes, preferably through preprinted sequential numbers.
- Special-purpose forms should be used to present data in the format required for data entry.
- The authorized use of source documents and input forms should be restricted.
- Separation of duties should be maintained in the following areas:
    - separation of the data processing department from its functional users,
    - segregation of duties within the data processing department, and
    - separation in the user department between source data generation and other functions.
- Approval signatures on source documents should be used for providing evidence of proper transaction authorization and for audit trail purposes.
- A manual review of source documents should be performed by user personnel to ensure completeness and accuracy of input.
- Source document logs should be maintained by each user organization to record the flow of transactions and batches in order to identify missing items and maintain accountability.
- Record-handling procedures that provide user personnel with instructions for error detection, correction, and re-submission of source documents should be reassessed periodically.

— Error logs should be used to follow up unresolved errors and to ensure their correction and timely re-entry into a system. Such error logs should not be maintained in the data processing area.

Data Input

Data validation

— Independent verification of data input.
— Predefined and stored formats to ensure that data are recorded in the proper fields, formats, and characters.
— Data input transactions, edited and validated close to source to minimize processing of erroneous data.
— Use of controls to verify input as being received from an authorized source.

Batch balancing

— Use of processing schedules to determine that all transactions have been received and entered on time.
— Use of turnaround documents such as payment advices for accounts receivable.
— Use of record logs to show the receipt and disposition of data, to account for all batches received, and to establish an audit trail within the system.
— Use of a batch header record as a control document for the individual source documents in that batch. Information on the batch header record (such as batch total, transactions count, and batch number) is used in verifying the completeness and accuracy of the batch.
— Automated balancing to batch header control totals, with procedures for reconciling differences and authorizing corrections.

Error Handling

— Interactive error correction in the case of input terminal systems, to permit immediate detection, display, and correction of errors.
— Issuance of edit error listings prior to processing, in the case of batch-oriented systems, with correction prior to processing of data.
— Error messages indicating the suggested corrective action to be taken for each data field that is in error.
— Editing of corrected data using the same data validation, batch balancing, and error-handling routines as for the original data.
— Production of control totals for rejects as well as for accepted data.
— Statistics on all errors, with corrective action on repeated occurrences.
— An input control function that is independent from source data preparation, to control error handling and ensure correction of data.

General

— Steps should be taken to ensure that there will be no further processing of source documents following input preparation.
— Procedures should provide for returning illegible or incomplete source documents.
— Dual custody of accountable forms should be maintained. A member of the data processing organization and a member of the user department should jointly authorize the release of prenumbered forms from storage.

Data Transmittal

Delivery

- Couriers should be bonded.
- Back-up copies should be kept of all magnetic tapes, cards, or other media used for data transmittal.
- Record counts and batch totals should be used to ensure no data have been lost in transmittal.
- Access to the data should be limited to authorized personnel.

Telecommunications

- Internal control totals should be used during transmission.
- Re-transmission by the transmitting unit of transaction data that are detected by the receiving unit to be in error.
- All incoming and outgoing messages should be validated.
- Line usage records and statistics for audit trail purposes should be kept.
- Message sequence numbers should be assigned to all input and output messages and recorded on an input/output message log to assist in system recovery or to restart and trace messages.
- All errors and re-transmission of messages should be logged and statistics of re-transmissions should be maintained.
- The user manual should include error-correction procedures of transmissions.

Processing

- Computer-generated transactions should be monitored through programs that print these transactions, thereby enabling users to perform a manual check on the computer-generated transactions. Computer-generated transactions may include balance controls between programs in the system, which may take the form of reasonableness checks or run-to-run control totals.
- A system of automated control totals for balancing the entire system and for balancing between systems should be developed and should be adequately explained in the technical documentation.
- Anticipation controls such as sequence checking may be used within the system to anticipate each transaction and detect missing transactions.
- Exception reports should be prepared each time a program control is overridden or bypassed.
- Computer files should be balanced by reconciling the number of records on the opening of a file and changes made during processing with the closing balance. Control records should contain totals of amounts and record counts for each critical data field on the file.
- Rejects should be logged by the system, to show that all rejects have been corrected and re-submitted.
- Automated suspense files should be generated by the system for all rejected transactions. These error suspense files should be maintained by the data processing organization to follow up corrected transactions that are rejected.
- Discrepancy reports from the error suspense file should be printed periodically and provided to users of the system to ensure that the handling of errors results in their correction and re-entry in a timely manner.

Data Access

- A formal library system should be developed for the handling of all application system data files.
- External and internal labels should be used to prevent the misuse of files.

- Access to records and files should be restricted to authorized users by security-classification level.
- All system enquiries should be recorded on an independent file, and an enquiry report should be produced for review by data processing management.
- Access authorization tables should be updated regularly and only on the basis of authorization by those with designated authority.
- Procedures should provide for formal authorization of any program modification. Such modifications should be authorized only by the user.
- Steps should be taken to ensure that the master file can be reconstructed by maintaining independent copies of it and the intervening transactions. Access to file copies should also be restricted to authorized users.
- Systems should be designed to report on an exception basis those records and fields which exhibit no activity for a significant period of time.
- Systems should be designed to report on an exception basis those records and fields which exhibit excessive activity.
- Critical files should be scanned periodically by an audit program to report illogical or incorrect file content.
- Back-up procedures should exist for all critical files. These procedures should provide for off-site data, program back-up, and hardware back-up.
- Recovery and restart procedures should exist for all critical application systems.
- A disaster plan should be in place in case of loss of application data or system software, or of equipment or key personnel.

Output

- Output control totals should be reconciled with input totals before reports are released.
- Statistical records of output reports should be maintained on the system and printed, summarizing the number of application reports generated, number of pages per report, cost per report, and number of lines per report.
- In on-line systems the number of transactions per period should be balanced against output control totals. Variances between input and output quantities should be monitored.
- Output reports should be scheduled so that users know when to anticipate them, and follow-up action should be initiated when reports are delayed.
- Output reports should be delivered only to authorized recipients.
- Report distribution should be limited to the authorized number of report copies.
- Users should be furnished with a report that reconciles manually maintained batch totals with totals accumulated by the computer system for the particular application.
- Sampling and other quality-control techniques should be used for checking the accuracy and completeness of reports.
- Negotiable documents should be moved from the storage area to the computer operations area and back, under the dual custody of members from data processing and the user organization.
- An independent history file of errors should be kept independently of processing files to analyse report error trends and statistics by type, source, and frequency.
- Provision should be made for feedback from output recipients as to the timeliness, accuracy, and suitability of system reports.

Chapter 9
Accounting and Control of Expenditures

1. Directives and Guidelines

Directives

- Financial signing authorities shall be delegated and communicated by ministers and deputy heads in a manner and form that provide controls on the disbursement of public money through adequate enforcement of an appropriate division of responsibilities.

- No person shall exercise signing authority pursuant to both sections 26 and 27 of the *Financial Administration Act* with respect to a particular payment.

- Payment authority shall be exercised only when any certificate required under section 27 of the *Financial Administration Act* has been provided by a person delegated appropriate spending authority.

- No person shall be permitted to exercise the authorities given to a position on an acting basis unless properly designated in writing by an officer to whom the incumbent of the position reports.

- No person shall exercise either payment authority or spending authority with respect to a payment from which he or she can benefit personally.

- Standard payment terms of 30 days from the receipt of an invoice or the acceptance of the goods or service, whichever is later, shall be adopted for suppliers of goods and services.

- Interdepartmental accounts shall be settled on receipt and suppliers of goods and services shall be paid on the due date as specified in the contract unless the supplier offers a discount for earlier payment.

- Every deputy head shall:
  - designate those classes of payments for which the essential needs of specific programs require that Receiver General cheques be transmitted to payees through departmental officers;
  - designate those senior officers exercising payment authority who may request that cheques for such classes of payments be forwarded to other officers of the department for onward transmission; and
  - prescribe procedures to ensure the delivery of such cheques to the designated payees.

Guidelines

- Spending authority should be granted to responsibility centre managers with respect to their own budgets. Delegation of spending authority to officers in relation to their budgetary responsibility ensures that they have adequate authority and are fully accountable. When other officers are given spending authority, such as that delegated to purchasing agents to place contracts and to personnel officers to hire staff, such authority is exercised on behalf of the responsibility centre managers who have budgetary responsibility. Spending authority may also be delegated to designated subordinates of responsibility centre managers and, to facilitate efficient and timely processing of payments, to staff in financial offices who are independent of officers exercising payment authority.

- Payment authority should be granted primarily to financial officers of the department to provide an independent check on the manner in which other officers exercise spending authority. Payment authority may also be delegated to other independent departmental officers with respect to transfer payments requisitioned as an operational activity.

- Commitment authority should be delegated either to managers with spending authority or to officers who have been delegated payment authority, or to their designated subordinates, depending upon where it best meets the operational requirements of the department to maintain records of undischarged commitments.

- Authorities should be delegated to organizational positions and not to individuals. A position is an aggregation of duties and responsibilities discharged within an organizational structure by a designated person.

- Payment authority should be delegated to positions classified at or above the Financial Officer 2 (FI-2) level or its equivalent, except when no officer of this level is available and payments must be requisitioned by a local responsibility centre. Payment authority should not be delegated to positions whose duties consist primarily of, or require close involvement in, the verification of accounts before payment or the preparation of cheque requisitions. These two requirements are to ensure that officers with payment authority are senior enough to have the experience and judgement necessary for exercising this important control responsibility.

- A document delegating financial signing authorities in the department should be signed by both the appropriate minister and the deputy head. A copy of this document should be placed in the departmental financial manual.

- Properly authenticated specimen signature cards should be used to identify the person who is the incumbent of each position to which a financial signing authority has been delegated. A copy of the delegation document and the specimen signature cards should be distributed to all who have to recognize and honour a signing authority. Deputy heads should review all delegated signing authorities and specimen signature cards at least once a year.

- Accounting controls should be established over inventories of materiel and equipment whenever there is need, because of the amounts or nature of the inventories, for independently controlling them, for providing information on changes in inventory levels, or for eliminating the effect on inventory changes from costs reported by the principal accounting system. Accrual information should be entered into accounting systems to the extent necessary to facilitate the maintenance of accounting control over assets.

2. Delegation of Financial Authorities

Responsibility for the control and spending of public money is placed on ministers and deputy heads by Parliament through appropriation acts, the *Financial Administration Act*, and regulations made under that act. No minister or deputy head could possibly carry out personally all these responsibilities along with all the others assigned to him by legislation and regulation. It is therefore necessary for them to authorize responsible officials to exercise these responsibilities on their behalf.

Through written delegation of financial signing authorities, the ministers and deputy heads delegate responsibilities bestowed upon them by legislation or executive regulations to appropriate managers in the department, where responsibility can be most effectively exercised and where accountability for results can be determined.

Types of Financial Authorities

The types of financial authorities that are directly pertinent to this description are covered in the following sections of the *Financial Administration Act*:

25 (1) "No contract or other arrangement providing for the payment of money by Her Majesty shall be entered into or have any force or effect unless the deputy head or other person charged with the administration of a service for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which such payment will be charged certifies that there is a sufficient unencumbered balance available out of such appropriation or item to discharge any commitments under such contract or other arrangement that would, under the provisions thereof, come in course of payment during the fiscal year in which the contract or other arrangement was entered into."

26 (1) "No charge shall be made against an appropriation except upon the requisition of the appropriate Minister of the department for which the appropriation was made, or by a person authorized by him in writing.

(2) "Every requisition for a payment out of the Consolidated Revenue Fund shall be in such form, accompanied by such documents and certified in such manner as the Treasury Board may prescribe by regulation.

(3) "No requisition shall be made pursuant to subsection (1) for a payment that:

(a) would not be a lawful charge against the appropriation;
(b) would result in an expenditure in excess of the appropriation; or
(c) would reduce the balance in the appropriation so that it would not be sufficient to meet the commitments charged against it."

27 "No payment shall be made for the performance of work, the supply of goods or the rendering of services, whether under contract or not, in connection with any part of the public service of Canada, unless, in addition to any other voucher or certificate that is required, the deputy of the appropriate Minister, or another person authorized by such Minister certifies:

(a) that the work has been performed, the goods supplied or the service rendered, as the case may be, and that the price charged is according to contract, or if not specified by contract, is reasonable; or

(b) where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, that the payment is in accordance with the contract."

In addition, authorities are required to be delegated under the Government Contract Regulations, the Travel Directive, and other executive regulations. For easy comprehension and use, certain terms are used in this guide to refer to these authorities. These are described below.

Spending authority

There are three subdivisions to spending authority:

(1) Expenditure Initiation

Expenditure initiation is the authority that must be aligned with managerial, budgetary, and operational responsibilities. It is primarily derived from the appropriation act that provided the funds for the purposes specified but it is limited by the restrictions imposed through the Government Contract Regulations, the Travel Directive, and other executive regulations and directives made under the authority of the *Financial Administration Act*. Because these regulations and directives delineate specific requirements, it is necessary for the minister or the deputy head to delegate authority in a manner that recognizes these requirements.

This authority is exercised when decisions are made to obtain goods or services that will result in the eventual expenditure of funds, such as the decision to hire staff, to requisition supplies or services, to authorize travel or removal, or to enter into some other arrangement for program purposes.

The delegation of this authority must have as its objective the assignment, to operational managers, of primary responsibility for authorizing expenditures to be charged to their budgets.

In some situations, such as staffing action or entering into major contractual arrangements, technical experts such as purchasing agents and personnel officers should be delegated "contracting authority" as a further subdivision of spending authority. However, such authority would only be exercised when so authorized by the manager with budgetary responsibility.

(2) Authority to Give Commitment Certificates

Authority to give commitment certificates is the authority delegated by the deputy head to appropriate officers to give, before a commitment is entered into, the commitment certificate required under section 25(1) of the *Financial Administration Act*, which confirms that there is a sufficient unencumbered balance available out of the relevant appropriation or item included in the estimates to discharge such commitment.

This authority may be delegated to the officers who also have expenditure initiation authority, to their administrative support staff, or to whatever central organization best suits departmental requirements. Although commitment documentation will originate with the officer who has expenditure initiation authority, the recording of commitments and the issuing of certificates under section 25 may be delegated to central staff if the records can be more effectively and economically kept at a central location.

Regardless of where the records of outstanding commitments are maintained, officers who are delegated payment authority must rely on these records to meet their responsibility, under section 26(3)(c) of the act, to ensure that no balance of an appropriation will be reduced to the point where it is insufficient to meet all the

commitments charged against it. When commitments are recorded centrally, it would be normal to assign the responsibility to the organizational units that have also been assigned payment authority under section 26. When commitment recording is decentralized to each responsibility centre, the total of undischarged commitments at the month-end must be reported to officers who exercise authority under section 26, and more regular reporting may be required towards year-end if the free balances in the appropriations are reduced to levels where day-to-day control must be exercised. Under both options, those exercising authority under section 26 must be satisfied that the design and application of the commitment recording system is adequate for their purposes.

(3) Authority to Confirm Contract Performance and Price

Authority to confirm contract performance and price is the authority delegated by the minister to appropriate officers to certify under section 27 of the *Financial Administration Act* that work has been performed as required; services and supplies have been satisfactorily provided; travel and removal have been successfully carried out; employee overtime has been worked; and contract performance has been in accordance with contract arrangements and conditions. If performance is not specified by contract, it must be deemed reasonable before payment is made. This also includes the authority delegated to appropriate officers to certify under section 27(b) where a payment is to be made before completion of the work, delivery of the goods or rendering of the service that the payment is in accordance with the contract. Many employee pay input forms are certified under section 27(b) as no service has been provided at the time of pay input. Since this certification constitutes the final step in the expenditure approval process, the manager who initiated the expenditure should also approve it for payment. When this authority is granted to officers, other than with respect to their own budgets, it should be recognized that they are exercising such authority on behalf of, or as agent for, the manager that has budgetary responsibility.

In some circumstances, authority to certify contract performance under section 27 of the act may also be delegated to financial officers, provided that adequate precautions are taken to ensure their independence in exercising payment authority, as defined below. Such delegation would be appropriate when invoices are received centrally and when it is feasible to accumulate centrally commitment, receiving, inspection, and all other documentation necessary to certify performance and prices without further reference to the staff of the responsibility centre manager.

It should also be recognized that a responsibility centre manager's superiors have authority not only to spend against their own budgets, but also against those of their subordinates. This type of authority should be exercised rarely, and only after full consultation has taken place. See Appendix A for a more detailed explanation of the reasons for the broader authority given to senior officers.

Payment authority

Payment authority is the authority delegated by the minister under section 26 of the act to financial officers of the department to requisition payments and their charge against appropriations. This is done after reviewing the legality of payments before they are requisitioned and exercising all appropriate financial controls. It includes ensuring adherence to the requirements of the Account Verification and Payment Requisition Regulations. Payment authority may also be delegated to other independent departmental officers with respect to transfer payments requisitioned as an operational activity, such as old age pensions.

The objective of establishing payment authority in accordance with this definition is to ensure that all the statutory and regulatory requirements for the control of funds and the requisitioning of payments are met. Because of the need for independent control, payment authority under section 26 should be vested with financial

officers, except for certain well-defined exceptions. For this purpose, a financial officer is defined as a person who is under the functional direction of the senior financial officer of the department.

Principles for Delegating Financial Signing Authorities

Delegation of signing authority to officers of a department or agency by the minister and the deputy head is primarily intended to facilitate procedures for the spending of funds available for departmental programs. Such signing authorities, however, also carry with them the responsibility of ensuring that all the related managerial and financial controls are effectively enforced and that all the normal requirements of probity and prudence are observed. It is important, therefore, that the delegation of financial signing authorities be carried out by the minister and the deputy head with the object of achieving the most effective control over spending. For these purposes a number of principles should be observed, as described below.

Separation of spending and payment authorities

Spending authority and payment authority must not be exercised by the same officer with respect to a particular payment. This principle recognizes the need for a division of duties to maintain financial probity. Officers delegated signing authority should be granted either spending or payment authority, but not both. However, it is recognized that in small establishments this may not always be possible, especially when assigning responsibilities to one officer as the alternate of another. In such circumstances, it may be necessary to delegate to one particular officer both types of signing authority, but whenever this is done this officer must not exercise both types of authority on the same payment.

Limit on exercise of payment authority

No payment authority can be exercised without the supporting signature of the appropriate officer who has authority under section 27, confirming that the work has been performed, goods supplied or services rendered, as the case may be, with respect to any payment that requires a certificate to this effect. This requirement recognizes the principle that only the manager who controls the budget of a responsibility centre or his designated subordinates may spend the money included in that budget. At the same time, it recognizes the fact that the financial officer exercising authority under section 26 often may need to have assurance from the responsible officer that the payment will be a "lawful charge against the appropriation", as required under section 26(3)(a), before he can requisition payment.

Delegation of authority to organizational positions

Delegated authority can not be redelegated. When a person is delegated authority by the minister or deputy head, he has no right to redelegate such authority to another person. This is in accordance with the maxim of administrative law "delegatus non potest delegare". Sections 26 and 27 of the *Financial Administration Act* expressly state that when the minister delegates financial responsibilities he must sign a suitable authorization to this effect. By this, Parliament has specifically limited the right to delegate to the minister alone. The same principle must be recognized throughout the entire system of financial signing authorities, even if it is not specifically required by other sections of the act or by related regulations.

Delegation should be to organizational positions and not to individuals. Thus, amendments will be required only when there are changes in organizational structure and responsibility, not in personnel.

To the greatest extent possible, delegation should be to general categories of positions, such as branch and regional director, not to each individual position. There are many advantages to following this principle. The most immediate arise from the fact that the number and size of the delegation documents are reduced. This in turn results in greater ease of handling and requires less reading. In addition, standardization of these documents aids administration of the authorities system in the department itself and in the Department of Supply and Services, where departmental signing authorities must also be honoured.

There must be a formal designation in writing whenever signing authority is granted to persons performing duties on a temporary basis. A person who is delegated signing authority on an acting basis should also be expected to fulfil all the responsibilities of the position. If a subordinate who is substituting for the incumbent of a position is not appointed to fill it on a temporary basis, he may not assume the signing authority of that position.

Officers who are delegated authority in the absence of the incumbent should be at a parallel or higher position in the organization. The immediate subordinate of a position should not be automatically designated as the alternate to his supervisor. Maintaining financial probity through fixed signing authorities at a desirable level will best be achieved by retaining that level when nominating alternates.

Special limits on authorities

Authorities that are delegated below the most senior positions should be restricted by geographical location, organizational unit, operational activity, and dollar amount commensurate with the duties and responsibilities of the positions. When required, further local restrictions may be placed on any authority granted by the minister. As authorities are granted to successively subordinate levels within the department, the duties of the positions concerned will carry correspondingly restricted responsibilities in relation to the geographical location, organizational unit, activity, and functional operations. Consequently, the signing authorities should be qualified by restrictions that limit each authority to parameters appropriate for the position. In addition, reduced authority in the form of maximum dollar amounts to be applicable to each item of expenditure or to each payment to be requisitioned should be included. Since authorities are granted to general categories of positions on which only general restrictions will be placed by the minister and deputy head, situations will arise in such cases as smaller-than-normal establishments, partly trained employees, special projects, and limited budgets, when additional restrictions or reduced dollar limits below the general maximum amounts will be advisable.

Payment authority should be delegated to positions classified at or above the Financial Officer 2 (FI-2) or equivalent level, unless no officer at this level is available and payment must be requisitioned locally. Payment authority should also not be granted to positions whose duties consist primarily of, or involve close engagement in, the verification of accounts before payment and the preparation of cheque requisitions. The delegation of the minister's responsibility to requisition payments should not be carried to too low a classification level. In addition, section 4 of the Account Verification and Payment Requisition Regulations requires every deputy head to divide the responsibilities for functions related to the procurement, receiving, and certification of goods and services, as well as those related to account verification and cheque requisition preparation and signature thereof, to the maximum extent possible. Payment authority should not be concentrated in financial administration divisions that deal with account verification and that have positions classified at a low level. When recommending positions to the minister for the delegation of payment authority, consideration should be given to all financial officers available in a location, not just to those involved directly in the payment process.

For personal payments, such as those for travel and removal expenses, it is a universally accepted requirement that financial authorities may not be exercised by the claimant when there is a possibility of conflict of interest.

To aid the checking of delegated payment authority by the Department of Supply and Services, limits on authority to requisition payments or other charges against an appropriation shall be expressed as a single maximum dollar amount for each position.

Granting and Communicating Authorities

The use of a departmental financial administration manual for delegating and communicating authorities offers the following advantages:

— a manual provides a convenient means of reproducing delegation documents that bear the authorized signatures of the minister and the deputy head;
— a manual ensures that persons who require to readily confirm the granting of ministerial authority to a particular position, for stated purposes and subject to stated limitations, may do so;
— a manual's index provides a ready means of tracing authorities, which are not always available when issued on a separate basis;
— the distribution system for a manual will ensure that copies of the delegation documents will be readily available to all who need to refer to them;
— the distribution system for a manual normally has safeguards regarding amendments, so that persons examining the manual can be assured that they are observing complete and up-to-date authorities; and
— the revision of all delegated authorities will be facilitated, particularly when there has been a change in the minister or the deputy head, at which time the renewal of delegated authorities is a matter of first priority.

Whenever possible, a delegation document should be shown in chart form, since a chart is easily read and the relationship of the various delegated authorities can be assessed at a glance. An illustration of a chart suitable for the delegation of signing authorities is included in Appendix A.

Identifying Incumbents of Positions Which Are Delegated Signing Authority

Specimen signature cards should be used to identify the incumbent of a position to which signing authority has been delegated. One card for each position should be forwarded to every location within the department where signatures need to be recognized and honoured. Also, one card for each position that is delegated payment authority must be forwarded to every relevant paying office of the Department of Supply and Services. A specimen signature card, as shown in Appendix B, should include:

— name of department, branch, region, and division;
— position title;
— type and coverage of authority delegated;
— general restrictions on authority;
— local restrictions on authority;
— name of incumbent and date of appointment;
— specimen signature of incumbent and date given; and
— authenticating signature of responsible officer and date.

To be fully effective, a system of specimen signature cards should meet certain criteria:

— the position occupied by the individual whose signature is included in a card should be precisely stated, so that it can be referenced to the relevant delegation document for confirmation of delegated authority;

- all restrictions on the authority should appear on the card—geographical, organizational, activity, functional, dollar amount, alternate status, and local restrictions—to eliminate the need to refer to the actual delegation instruments on a day-to-day basis;
- the signature of the incumbent of a position should be authenticated by the signature of a responsible officer such as a branch or regional director;
- cards should be readily available to all staff who need to recognize signatures as part of their duties;
- adequate systems to control specimen signature cards should be established to ensure that cards are issued as soon as an incumbent first takes up his duties, that they are provided in all locations where the signatures must be recognized and honoured, that they are withdrawn as soon as the incumbent gives up the duties of his position, and that they are withdrawn and reissued when departmental reorganizations or policy changes alter any of the pertinent data on the cards; and
- all cheque requisitions, journal vouchers, etc. received and not signed by an officer for whom an authenticated specimen signature card is held should be returned without action being taken.

Cyclical Review of Authorities

Deputy heads should arrange for an annual review of all delegated signing authorities to determine their continuing validity. They should also arrange for every specimen signature card in use in departments and in the relevant offices of the Department of Supply and Services to be reviewed at least annually.

Probity in the disbursement of public funds requires that commitments and payments be made solely by duly authorized personnel. All persons who are required to act only on the signed request of someone who has been delegated signing authority must ensure that before a signature is honoured it is recognized and determined to be valid for the purpose for which it is given. Persons who have custody of specimen signature cards should ensure that all cards in their possession are valid. In turn, ministers and deputy heads who have delegated their authority to subordinates should check periodically to ensure that the authority delegated is not being abused or wrongly assumed.

3. Account Verification and Payment Requisitioning

The expenditure process within government must be conducted with a high degree of probity at all times. This is most important when claims for payments are approved and payments are requisitioned. When paying accounts it is necessary to carry out control procedures similar to those used in the private sector but, in government, certain other procedures and controls are required to be applied under the terms of the *Financial Administration Act*. Because of the need to maintain high standards, Treasury Board issued the Account Verification and Payment Requisition Regulations in 1969, immediately following the transfer to departments of most of the financial control previously exercised by the Comptroller of the Treasury.

Part I of the Account Verification and Payment Requisition Regulations prescribes the steps that must be taken by departments to establish and maintain probity in their payment functions and to meet the various statutory requirements. A first requirement is for each deputy head to establish the maximum division of responsibilities throughout the entire chain of procurement of goods and services—confirmation of contract performance, account verification, cheque requisition preparation, and cheque requisition signature. The division of duties is recognized as the principal and most effective means of preventing, or at least diminishing, the possibility of fraud or error by employees. A second requirement identifies the minimum procedures that should be established by deputy heads for the verification of accounts before payment.

Responsibility for the system of account verification and for the enforcement of related financial controls rests with those officers who are delegated payment authority under section 26 of the *Financial Administration Act*, but primary responsibility for verification of individual accounts rests with those officers who are given spending authority.

Verification by Officers with Authority to Confirm Contract Performance and Price

Verification of accounts before payment is a normal financial practice carried out to ensure that amounts are properly payable. As a minimum, this involves checking to ensure that:

- supporting evidence exists to verify that goods or services have been supplied;
- goods or services have been supplied in the quantity and to the specifications laid down in the order or contract;
- prices claimed are in accordance with the order or contract, or are standard charges, or (if there is no agreed price) are reasonable;
- goods or services supplied have been ordered by an officer with expenditure initiation authority;
- the computation of the charges is arithmetically correct;
- discounts due have been deducted;
- inadmissible extras have not been added;
- the account, or part of it, has not been paid previously; and
- the relevant accounting entries for the payment are accurately initiated.

The first three items are called for specifically in section 27 of the act, which also requires that advance payments, such as employee pay input forms or payments due on signing a contract and those due in accordance with progress made on a contract, are made only when they are in accordance with the terms of that contract. These verification tasks will usually be carried out by an officer (or by his staff) who exercises authority under section 27, because it is at this level that responsibility rests and information for effective verification is available.

Persons with spending authority have responsibility to raise and obtain all supporting documentation necessary for the account verification process, including contracts, leases, purchase orders, and program arrangements, for example. These documents are essential for each payment made, because they show the extent of commitment involved, agreed prices for the services and supplies, precise specifications of requirements, agreed contract conditions, and complete expenditure coding, all of which enable the necessary fiscal and departmental coding to be carried out.

Verification by Officers with Payment Authority

The responsibility of the financial officer is to ensure that all the requirements of the Account Verification and Payment Requisition Regulations are adhered to by the department. Section 7 of these regulations requires the officer signing the certificate on a cheque requisition to ensure that all the verification procedures have been carried out and all the information appearing on a cheque requisition is accurate.

Section 26(3) (a) of the *Financial Administration Act* requires that no payment shall be requisitioned by a department that would not be a lawful charge against the appropriation. This entails verifying that the payment is for the purposes of the appropriation as voted by Parliament, which includes verifying compliance with the enabling legislation of the program concerned. It is also necessary to confirm that the payment is in accordance with any other relevant statute, order in council, executive regulation, or order, including any specific Treasury Board minute. Since the payment requisitioning responsibility rests with independent officers, there is danger of a second review that duplicates all the checks applied at the primary level of responsibility. Officers who exercise payment authority under section 26 should do so by reviewing procedures under section 27 and should carry out adequate tests to assess the quality of the review at the primary level of responsibility. When these tests indicate an unsatisfactory situation, the documentation should be returned, or else a complete review should be carried out and errors reported to the head of the responsibility centre for his corrective action. The primary responsibility of the officer signing under section 27 should never be obscured by introducing duplicate verification processes. A recommendation to withdraw authority delegated under this section is preferred to the alternative of duplicate checking, which leaves no one ultimately responsible.

Basic Procedures for Account Verification

Account verification should begin as early as possible. The procurement process for services and supplies may be short and simple, as when requisitioning standard supplies from the Canadian Government Supply Service, for example, or it may be protracted and complex, as when entering into a contract for the development and manufacture of a new item. In the former case, most of the account verification procedures may be completed before the documentation requisitioning a payment comes to the attention of financial officers exercising payment authority. In the latter case, matters such as the legality of the charge to the appropriation and Treasury Board approval for placing the contract should be independently tested and confirmed at the earliest possible moment by financial officers exercising authority under section 26, and not delayed until a claim for payment has been submitted. Action, if taken promptly, may eliminate delays and embarrassment.

Acceptable Alternatives in the Division of Duties and Responsibilities

The system charts in Appendix C illustrate four alternative structures that meet the requirements of the directives and guidelines. A fifth chart depicts a structure specifically applicable to the pay process. Within each alternative certain key factors need to be discussed.

The first alternative is based on complete decentralization of expenditure initiation authority and certification of contract performance to the responsibility centre manager. It is probably most applicable to smaller responsibility centres, which have a small volume of expenditure transactions. The paperwork and verification procedures might be carried out by the manager himself, by his secretary or other subordinate, or by several of these people. In this type of division of duties, the review of the system and test sampling carried out by the financial officer are critical.

The second alternative is applicable to larger responsibility centres, which warrant their own administrative staff. It is essential that this administrative unit, which provides account verification services to the responsibility centre manager, be completely independent of the financial officers or unit, which may or may not be part of the responsibility centre. In this system the responsibility centre manager retains and personally exercises authority under section 27 of the *Financial Administration Act*.

The third alternative is based on providing service to responsibility centre managers by administrative units that are within the responsibility centre or by separate organizations, such as materiel management or personnel. These organization must recognize their role and their relationship to the responsibility centre manager in signing under section 27 on his behalf.

The fourth alternative is applicable to highly centralized, service-type departments, and to headquarters operations of decentralized departments. It is essential that the pre-audit section recognize its role as a service unit to responsibility centre managers and that it be entirely independent of the officers exercising section 26 authority. This division of duties is applicable to pay processing except that the pre-audit section equates to a pay and benefits section, which is commonly part of a personnel unit. Pay input forms (cheque requisitions) are prepared by pay and benefits clerks, subjected to a full independent verification, and certified under section 27 on behalf of the responsibility centre manager.

It is the policy that the officer initiating an expenditure, or someone on his behalf, should exercise section 27 authority with respect to receipt of goods and to price. This stipulation makes that officer responsible for the correctness of the payment requested by imposing on him primary responsibility for performing most of the other procedures required by the Account Verification and Payment Requisition Regulations. The only verification steps for which officers with section 26 authority are primarily responsible are 5(g) (h) and (i) of these regulations, which correspond to section 26(3) (a) (b) (c) of the *Financial Administration Act*. The payment officer, however, must ensure that a proper system of verification has been developed and must check to see that it is being properly followed.

It is imperative that, except on a sample basis, detailed checking not be performed, because it would detract from the responsibility of officers with section 27 authority and would be a waste of resources.

Assigned Crown Debts and Debts Subject to Powers of Attorney

Procedures relating to assigned Crown debts or to debts subject to powers of attorney when debt is in force are also included in the verification process. Like the financial controls mentioned above, the procedures relating to these payments are incorporated into the verification process because this is the only point at which they can be enforced. The *Financial Administration Act* permits a Crown debt due or becoming due under a contract to be assigned by the creditor to a third party. The act also permits further classes of Crown debts to be prescribed by order in council for recognition as assignable. In addition to this statutory recognition of the assignment of Crown debts, it is Treasury Board policy that powers of attorney given on certain types of debts be recognized.

The Assignment of Crown Debt Regulations, which are made by the Governor in Council, cover the documentation to be produced and the procedures to be followed by an assignee to obtain recognition of an assignment by the Receiver General. These regulations also recognize surpluses arising under the *Veterans Land Act* and compensation payable under the *Expropriation Act* as being further classes of Crown debts that may be assigned.

The Assigned Debt and Power of Attorney Payment Regulations, which are made by Treasury Board, cover the documentation to be used and the procedures to be followed by departments in order that the Receiver General can fulfil his statutory responsibility to recognize assignments and make payments to assignees and attorneys. Once the assignment of a Crown debt has been acknowledged by the Receiver General, it is important that all future payments against the debt be made to the assignee. If a payment is made to someone other than the acknowledged assignee, the Crown may remain legally liable to the assignee for the payment and may be responsible for the recovery of the unauthorized payment. The regulations recognize legal officers designated by the Receiver General as the sole authority for determining whether a particular assignment or power of attorney will be recognized by the Crown.

Cost-Reimbursable Contracts and Arrangements

When departments are involved in contracts or arrangements that require payments to reimburse a payee for costs incurred, or for a proportion of such costs, it is essential that departments establish procedures to ensure that payments are made only in relation to agreed costs actually incurred. This involves an audit of the payee's accounts. The contract conditions or terms of arrangement should provide that claims be submitted by the payee in a prescribed form that will enable all departmental requirements to be met, including the control of expenditures and the projection of expenditure trends.

Payment Requisitioning

After an account has been verified for payment, the department may requisition the payment. Section 26 of the *Financial Administration Act* requires that every payment be requisitioned by the appropriate minister or by a person authorized by him in writing to make such requisitions, with Treasury Board prescribing the form of the requisition and the certification to be included therein. Under this section of the act, the requisition (which may be for a cheque, an interdepartmental settlement advice, or a central accounting journal voucher) is designed to do two things: requisition the payment out of the Consolidated Revenue Fund and charge the payment against the relevant appropriation.

There are some exceptional types of payments, made to persons outside the government, for which payment instruments other than Receiver General cheques are used. In some instances these have been authorized by specific legislation, for example warrants drawn by the Employment and Immigration Commission on the Receiver General for payments of unemployment insurance benefits from the Consolidated Revenue Fund. In other instances payments are made through departmental bank accounts, which are used when prompt payments must be made, such as the wages of casual workers in locations that cannot be served by the nearest services office within the governing time limits. These bank accounts are advances from the Consolidated Revenue Fund and actually constitute petty cash, which, for purposes of security and convenience of making payments, is held in a bank account. Although initial payment to the creditor is made by a cheque drawn by a departmental officer on the departmental bank account, the actual payment from the Consolidated Revenue Fund and the charge against the relevant appropriation are made when the Receiver General cheque is drawn to reimburse the departmental bank account for the payments made from it or when an accounting for the advance is made.

The Cheque Issue Regulations made by Treasury Board cover the issuing of Receiver General cheques and the operation of departmental bank accounts. The requirements for issuing replacement or duplicate cheques, when the original cheques have not been delivered or are lost, destroyed, or stolen, are set out in part III of the regulations. A section containing the regulations is included in this guide.

Certification of Requisitions

Requisitions for payments by cheque or journal voucher must all bear the same statutory certificates, which must be signed by an officer authorized by the minister to requisition payments.

The certificates to be given are prescribed by Treasury Board in the Account Verification and Payment Requisition Regulations. Different certificates are used depending on whether single or recurring payments are involved.

The certificate for single payments is the more commonly used of the two and reads as follows:

"Requisitioned for payment pursuant to section 26 of the *Financial Administration Act* and certified in accordance with subsection 7(1) of the Account Verification and Payment Requisition Regulations."

The certificate for recurring payments is similar but calls for the payments to continue to be made until otherwise advised. Although the wording of these certificates is abbreviated, their coverage is wide. They certify that all the requirements of section 26 have been met, or will be met, by the payment(s).

The scope of the signing officer's responsibility is widened considerably by the inclusion of certification pursuant to subsection 7(1) of the Account Verification and Payment Requisition Regulations, which states:

7 (1) "Every payment requisition shall be signed by the appropriate Minister or by a person authorized by him in writing and such signature constitutes a certificate that all the information contained in the payment requisition as required by these Regulations is accurate and that all verification procedures required by section 5 have been carried out."

Thus, the signing officer is responsible for ensuring that all the statutory requirements are met.

The requirements of the certificate under section 27 vary from department to department and from program to program, and it is the responsibility of each deputy head to recommend to his minister the precise form and wording of the certificate(s) to be given within the department, and the circumstances under which each will be signed by persons granted authority for this purpose.

The certificate under section 27 is required for the vast majority of requisitions, but because it relates to receipt of goods, work performance, and prices, it is not required for such payments as grants.

Section 27 certificates may or may not appear on payment requisitions, depending on departmental requirements. Such a requirement would not be administratively efficient when cheque requisitions have to be raised in responsibility centres in remote locations. The certification of another document, such as an invoice or receiving report, might be preferred in such circumstances. In addition, a central payment may entail the consolidation of many payments that receive certification under section 27 in different responsibility centres. On the other hand, some deputy heads may find that the interests of their departments will best be served by including the certificate on the cheque requisition itself. When the section 27 certificate is included on cheque requisitions it must be recognized that this is done solely for departmental purposes, and that there is no

responsibility resting on the Receiver General's staff to carry out a check of signatures or to recognize the certificate in any other way. To assist departments that may wish to include a certificate under section 27 on their forms, the following statement would be appropriate:

"Certified pursuant to section 27 of the *Financial Administration Act*."

This certificate will be available on standard forms issued by the Department of Supply and Services, such as the cheque requisition form, pay input form, and the central accounting journal voucher.

Form of Cheque Requisition

Although the form of the central accounting journal voucher and most pay documents are standard, the form of the requisition for a Receiver General cheque varies according to circumstances. Section 26(2) of the *Financial Administration Act* enables Treasury Board to prescribe both the form of the requisition and any accompanying documentation to be provided. Part II of the Account Verification and Payment Requisition Regulations covers the requirements that must be observed in order for departments to come to an agreement with the Receiver General on the forms of cheque requisitions they will use to obtain Receiver General cheques. The Payments Services Branch of the Department of Supply and Services is responsible for this.

The regulations recognize three different forms for cheque requisitions:

- a separate cheque requisition;
- a cheque requisition incorporated into a departmental operating document; and
- a cheque requisition based on a document claiming or authorizing a payment, with an attached coding slip.

Schedule II to the regulations prescribes all the information required on the requisition.

When a department uses a separate cheque requisition, the standard form approved by the Canadian Government Specifications Board should be used. If, however, some operational or systems requirement renders that form unsuitable, a department may reach agreement with the Receiver General on a cheque requisition suitable to that department's own use. When such a separate cheque requisition is used, the Department of Supply and Services must be provided with a copy of it, to be used as a payment advice for forwarding with the cheque, unless arrangements have been made to print details of the payment on the stub of the cheque.

When departments with a large volume of payments of an operational nature wish to incorporate the cheque requisition into a departmental document, the form must be designed so that all the information required for the cheque requisition is readily and positively identified with the payment. Whenever it is possible to do so, the cheque requisition should constitute a separate section of the form.

When a department decides to use as the basis for a cheque requisition a document authorizing or claiming a payment, it may use either the original invoice or a copy of it. It should be noted that once a document has been passed to the Receiver General as a requisition it cannot be returned to the department. When such documents are used as a basis for a cheque requisition, the requisition is completed by attaching to it a complementary information sheet or coding slip designed to include all information and certificates required on a cheque requisition that do not appear on the basic document.

4. Grants and Contributions

Introduction

Each year Parliament approves substantial funds for grants and contributions. Payments under each are not interchangeable because of different features. This section will define the two terms, explain their characteristics, and establish the rules to be followed in applying effective control.

The policy outlined in this section will apply to all grants and contributions, including those of a statutory nature, made by departments as defined in section 2 of the *Financial Administration Act*. When there is a discrepancy between the provisions in this section and legislation authorizing statutory grants and contributions, the legislation will prevail.

The following are definitions of terms used in this section:

grant. An unconditional transfer payment, made to a recipient, for which the government will not receive any goods or services.

contribution. A conditional transfer payment, made to a recipient, subject to audit and for which the government will not receive any goods or services.

contribution arrangement. An undertaking between a donor department or agency and a prospective recipient of a contribution, describing the obligations of each and the terms and conditions for payment. The arrangement may be formal or it may be as informal as an exchange of letters.

advance payment. A payment, under the terms of a contribution arrangement, that is made before the performance of that part of the arrangement for which the payment is made.

progress payment. A payment, under the terms of a contribution arrangement, that is made after the performance of part of the arrangement for which the payment is made but before the performance of the whole arrangement.

instalment payment. A payment, related to a grant item, that is divided into portions made payable at different times.

audit. An examination of a recipient's accounts and records or of other evidence deemed necessary in the circumstances.

Characteristics of Grants

- The items listed as grants in the grants and contributions tables in the *Estimates* are legislative because they are specifically authorized by Parliament as to recipient or class of recipient and as to the amount. Consequently, once specific authorization is given by Parliament as to recipient or class of recipient the grant may not be increased or redirected without parliamentary authority.
- Grants are unconditional payments without an audit requirement.
- An arrangement is not essential for a grant.
- When there is a class of recipients, terms and conditions are required to determine eligibility.

Characteristics of Contributions

— Unless specified by the vote wording, the items listed as contributions in the grants and contributions tables in the *Estimates* are not legislative but informational. Treasury Board can therefore authorize new contributions, new recipients or new classes of recipients, and new amounts or increases in amounts listed within the authority granted by Parliament.
— Contribution payments are conditional on performance or achievement and are subject to audit to satisfy the donor that the disbursements being reimbursed are in accordance with the contribution arrangements.
— An arrangement is required between the recipient and donor departments identifying the terms and conditions governing every payment.

Terms and Conditions

Treasury Board approval of terms and conditions is required for all contributions and for grants to classes of recipients. This will be done at the time authority is sought to include a grant or contribution item in the estimates. Terms and conditions may not be changed without the approval of Treasury Board.

When legislation provides that terms and conditions be approved by the Governor in Council, submissions are to be routed through Treasury Board.

Submissions for terms and conditions should include the following information:

— a clear definition of the class of recipients, written in such a way as to indicate the appropriateness of the grants or contributions to the program objectives;
— the organizational positions to which authority is expected to be granted by the appropriate minister to sign arrangements; the maximum dollar limitation of the authority should be indicated;
— the organizational positions to which authority is expected to be granted by the appropriate minister to approve the payment by certifying that it is in accordance with the contribution arrangement; the maximum dollar limitation of the authority should be indicated;
— the departmental review procedure before there is a decision that a payment of a grant or contribution be made;
— the supporting material required in an application from a prospective recipient;
— the maximum amount for any recipient;
— the evaluation procedure used to determine the effectiveness of the grant or contribution relative to the department's objectives;
— the method of payment: in the case of grants, by instalments or by a lump sum; in the case of contributions, on presentation of an accounting, a cash forecast, an invoice, or a progress claim; the method of making final payment should be specified;
— in the case of contributions, the provision of advance payments or progress payments, whenever such methods of payment are necessary, and the method to be followed by the recipient in accounting for such payments;
— in the case of contributions, the audit arrangements, including coverage and scope;
— the number of years over which it is expected that the terms and conditions will apply and that payments will continue to be made; and
— other factors considered appropriate in the circumstances.

Contribution Arrangements

A contribution arrangement is an undertaking between a donor department or agency and a prospective recipient of a contribution. It is required that there shall be an arrangement for each contribution, describing the obligations of both parties and outlining the terms and conditions under which payments will be made.

An arrangement may be formal or it may be as informal as an exchange of letters. However, it should include at least the following:

- identification of the recipient of the contribution;
- purpose of the contribution;
- effective date, duration of the arrangement, and date of signing;
- conditions attached to the contribution;
- financial responsibilities of the donor and the recipient;
- allowable expenditures;
- financial limitations;
- method of payment, i.e. on presentation of an invoice, progress claim, or cash forecast;
- provision, if any, for advance payments and/or program payments, and conditions for final payment;
- provision for audit;
- provision that any money paid in excess of that required by the recipient is an amount due to the Crown; and
- written acceptance of the terms and conditions of the contribution arrangement by the prospective recipient.

In some instances, items such as allowable expenditures and financial limitations are already included in brochures and other material describing the particular program. When this is the case, the provisions included in such descriptive material need not be duplicated in a formal arrangement. The descriptive material and the acceptance of the terms and conditions contained therein should, however, be considered for purposes of meeting the above requirements.

Presentation in *Estimates*

Grants other than statutory grants to be made under a program will carry the words "the grants listed in the *Estimates*" in the appropriate vote title. The payment of grants will rely for legislative authority on these words after they are given effect in an appropriation act. The *Estimates* include a table that will contain the name of each recipient or a description of each class of recipient, and the amount for each item listed.

Contributions under a program should be indicated in the appropriate vote title. The *Estimates* for the program include a table that will contain the name of each recipient or a description of each class of recipient, and the amount of each item listed.

A separate vote will be constituted when proposals for expenditure on grants and contributions total more than $5 million for any program within a fiscal year.

Classes of recipients of grants or contributions may be listed when it is impractical to list the names of intended recipients or the amounts to be paid to them. An example would be the scholarships and grants in aid of research given by the National Research Council, which include numerous recipients of relatively small amounts. Another class of recipients is created with each change in any one approved term or condition. A description of each item should identify the intended group of recipients and the purpose of the payment.

Assistance in the form of recoverable loans are non-budgetary because they are claims on parties outside the accounting entity of the Government of Canada. They are not grants or contributions.

All assistance to projects of a capital nature must be classed as contributions, unless otherwise directed by Treasury Board.

Grants or contributions may not be made to subsidize appropriations and programs of other departments and agencies.

Control of Expenditures

The provisions of section 25 of the *Financial Administration Act* apply to grants and contributions.

Every payment of a grant and a contribution must be requisitioned under section 26 of the *Financial Administration Act* and subsection 7(1) of the Account Verification and Payment Requisition Regulations.

At present, payment of grants does not require certification under section 27 of the *Financial Administration Act* because that section relates specifically to the performance of work, supply of goods or rendering of services.

To respect the objective of the Treasury Board policy on spending authority, i.e. that managers shall have the primary responsibility to incur costs and approve expenditures charged to their budgets, the requirements dealing with the delegation of authority shall be adhered to. Accordingly, grants and contributions arrangements shall be signed and payments shall be approved by persons who have delegated authority.

Payment of grants may be made in full or by instalments. Because of their unconditional nature, grants are not subject to advance payments and progress payments. The inclusion of a grant item in the *Estimates* imposes no requirement on a department or agency to pay all or any of the amount. The item does not give a prospective recipient a right to the money; rather it gives authority to the appropriate minister to spend the amount according to the purpose approved by Parliament. Departments and agencies should review and document the need for and the amount of the grant before paying it.

Payment of contributions is normally a reimbursement of expenditures by a recipient. An arrangement may provide for advance payments or progress payments, if such payments were provided in the approved terms and conditions.

Advance payments should be based on cash flow forecast by month, whenever possible, and prepared by the recipient. They should cover only the recipient's immediate cash requirements and may be made only for the donor's share of financial responsibility. To ensure that advances are not used as a means of long-term financing, they may be made for an initial period no greater than three months, and thereafter for one month at a time. An accounting for the first and subsequent months will be required before the advance for the fourth and each following month is made. Settlement of outstanding advances, either by collection or by deduction from current requests, is required prior to making any further advances. Any exceptions must be specifically authorized by Treasury Board.

Final settlement of a contribution should be made only after the donor department has satisfied itself, preferably by audit, that the recipient has met the terms and conditions of the contribution arrangement.

Section 31 of the *Financial Administration Act* and the Accountable Advances Regulations do not apply to advance payments of contributions.

Section 35 of the *Financial Administration Act*, which deals with holdbacks, will not apply to payments of contributions.

Allotment control applies to each grant and contribution item listed in the *Estimates*. Control of transfers between allotments is detailed in Treasury Board Circular No. 1969-94.

Year-end Considerations

The authority to pay grants lapses annually on March 31. An exception is provided in the appropriation act covering the *Final Supplementary Estimates*, which permits payment of grant and contribution items included in such estimates. The appropriation act states that "payment shall be deemed to have been made in and chargeable to the fiscal year ending this thirty-first day of March".

Contributions are usually paid under a contractual arrangement and will therefore normally be subject to the application of section 30 and to the following rules:

— if the account is received prior to April 30, if it includes old-year expenditures by the recipient, and if it is paid on or before April 30, the payment will be charged to the old-year appropriation;
— if the account is received from the recipient after the extended thirty-day period and covers the reimbursement to the recipient of old-year expenditures, the payment will be charged to the new-year appropriation.

Advances outstanding at the end of a fiscal year shall remain a charge to the fiscal year in which they were made, notwithstanding that the advance may not be accounted for in the same fiscal year. The accounting records of departments shall therefore provide adequate controls over such advances in the new year. Advance payments should not be made and charged in a fiscal year when the expenditures are not likely to be incurred until the following fiscal year.

Departmental records of total payments to recipients of grants and contributions are to be maintained in a manner that will enable disclosure in the *Public Accounts* of payments in excess of an amount to be determined by the Treasury Board. Instructions to departments will be included in the annual Receiver General directive on the preparation of departmental submissions for *Public Accounts* purposes.

Audit

Contributions are conditional payments, and therefore the recipients' performance of their obligations under the arrangement shall be subject to audit. The right of the Government of Canada to undertake an audit shall be clearly established in every arrangement, even though an audit may not always be performed.

An audit may be conducted by officials of the donor department or agency, or by one or more of the following agents:

— Audit Services Bureau of the Department of Supply and Services;
— independent auditors retained by the recipient;
— independent auditors retained by the donor; or
— provincial or territorial auditors.

The donor department or agency should establish the most appropriate alternative by giving due consideration to competence, independence, and efficiency.

When an audit is conducted by an agent of the department or agency, responsibility for the adequacy of the audit remains with the donor department or agency and cannot be delegated to the agent.

The extent, scope, coverage, and timing of the audit to be performed shall be determined by the donor.

When the donor proposes to accept an audit undertaken by independent auditors retained by the recipient, the donor shall take reasonable care to ensure such confidence is justified. The steps should include the following:

— assurance that the auditors are independent, practising public accountants, licensed as required or otherwise appropriately qualified;
— direct communication with the auditors to ensure they are aware that the donor will be relying on their audit; and
— assurance that the scope of the audit is adequate in the circumstances.

When the audit is undertaken by independent auditors retained by the recipient, the cost of the audit may be included in the contribution, if the approved allowable expenses include audit fees and if this does not contravene the terms and conditions applicable to the contributions. In all other instances, audit costs, whenever applicable, shall be absorbed within the appropriate departmental operating expenditures vote.

When the donor proposes to accept an audit undertaken by provincial or territorial auditors, the donor shall establish the right to review their working papers and to perform any additional audit verification deemed necessary.

In all cases, the donor's internal audit group should assume responsibility for reviewing and evaluating, on a department-wide basis, the arrangements made for, and the frequency of, audit of contributions. This responsibility is part of the internal audit group's mandate to evaluate the department's systems of financial administration and to ensure that the terms of this section are being followed.

5. Accounting for Inventories

Inventories of materiel and equipment may be regarded as expenditures in suspense and, accordingly, accounting and control techniques applicable to them are described in this chapter.

Accounting and control procedures are basically the same for the purchase of inventories and for regular transactions, but because inventories have continuing and often significant value for some time after their purchase, additional procedures are required to account for and control them until they have been consumed in operations or have otherwise been disposed of. Appropriate accounting and control techniques will vary between departments depending on such factors as the quantities, dollar values, and attractiveness of inventory items, and the need for accurate cost information. In selecting appropriate techniques, departments should consider the general requirements of management for visibility, accountability, and control in all financial matters. Through proper accounting for inventories, financial reports can be significantly improved, custodians can be held accountable for the assets under their control, and decision-making on the acquisition and utilization of assets can be facilitated.

In this section the need for accounting control of inventories is discussed; techniques for controlling inventories of materiel and equipment through accounting records and physical counts are explained; and some considerations on the financial reporting of inventories are presented.

Need for Accounting Control over Inventories

Responsibility and accountability for the custody and use of an asset extend over its useful life, especially when the useful life exceeds the fiscal year and thus the bounds of normal parliamentary financial control. Financial officers should recognize that effective management of cash resources cannot be achieved without equally effective management of assets after they are acquired for cash. Although financial officers should not assume functional responsibilities that have been assigned to other functional disciplines, such as materiel management, or to operating managers, they should ensure that significant information relating to the custody and use of assets is expressed in financial terms and is integrated with the principal budgetary, accounting, and reporting systems of their departments.

Within a department, the extent to which financial control of assets is appropriate will vary according to the circumstances of each responsibility centre. Financial control should be established when it is cost-effective to do so, or when there is a use for additional financial information or additional internal control. For example, financial control of stationery supplies would rarely be useful for most responsibility centres, although it would be expected of printing and publishing units or materiel-handling and central-storage areas.

Financial officers in each department should ensure that requirements for accounting and financial control over inventories of materiel and equipment, including clear identification of inventories that must be controlled, are communicated to line and functional managers responsible for custody of inventories.

Inventories of materiel and equipment are recorded at nominal value on the Statement of Assets and Liabilities of the Government of Canada, and there is no statutory requirement for them to be recorded in total in the central accounting system of the government, nor is there any regulatory requirement for detailed departmental accounts, except when they are financed by means of a revolving fund. However, a number of reasons why departmental management should consider establishing accounting control over such assets are stated below.

Independent control over custodians

Each department should have systems to ensure that all physical assets are in safe custody to protect against the loss of assets through theft or misuse. The management of assets is normally the responsibility of operational or specialized functional managers, and these individuals will often operate independent systems to record the costs of assets on hand. When detailed inventory records are maintained either at operating or at functional responsibility centres, internal control will be strengthened if the duties of the custodians are clearly separated from those of the record-keepers. In addition, and in accordance with the principles established earlier in this chapter, these record systems should be considered as subsidiary accounting systems and should be integrated with the principal accounting system of the department. Operation of a control account in the principal accounting system provides independent control over those operating the subsidiary system, ensuring that they do not write off or otherwise dispose of assets without appropriate authority. The attractiveness of assets and the opportunities for misuse should be taken into account in determining the need for independent control.

Effect on budgetary control

Investments in inventories of materiel and equipment are more readily managed than most other expenditures. As such, opportunities are provided to cushion the effect of budgetary constraints by depleting inventories or to use up otherwise lapsing funds by building up inventory levels. This may be good management of financial resources, but it should be done only with the full knowledge and approval of senior departmental management and the appropriate program officer of Treasury Board, since current-year appropriations are granted to satisfy current-year operational expenditures. When inventory movements distort the true operating results of a responsibility centre or the cost of an activity, senior management may be misled and may lose control over the operational performance of their subordinates. In addition, since there are substantial costs involved in carrying inventories, including the risk of obsolescence, it is important that the total investment in inventories be known from year to year.

Need for accurate cost information

The need for cost information was identified in Chapter 8. By integrating inventory systems with the principal accounting system, the effect of changing asset levels on costs is eliminated from reports produced. Materiality will determine needs in this area. In this respect, consideration should be given to the effect of inventories on the program as a whole and on the evaluation of performance of an individual responsibility centre.

Description of Materiel and Equipment

Inventories of materiel include consumable operating supplies and raw materials, goods in process of production, and goods held for sale or reissue.

Inventories of equipment include items that are not expendable except through depreciation and normal wear and tear, and that normally need maintenance. Examples are mechanical and electrical machinery or equipment, motor vehicles, and furniture. Practices for the financial control of equipment may also be applied to minor capital items, small buildings, and holdings of real estate that may be the property of departments.

The *General Guide for Materiel Management* in government, issued by the Treasury Board as Management Improvement Policy MI-1-65 and amended by Circular No. 1968-25, is a comprehensive guide for use by departments when reviewing their materiel management systems and procedures.

Techniques for accounting for inventories are described in Appendix D.

Financial Reporting of Inventories

The principal financial reporting system of a department should report totals of significant values of materiel and equipment on hand at the end of each accounting period, by category and by responsibility centre, with accumulated totals being reported at higher levels of responsibility when appropriate. The totals reported are useful as absolute values, particularly at lower levels of responsibility, where, for example, it may be desirable to ensure that minimum inventory levels are being maintained. The totals, when compared with budgeted levels and previous experience, are also a convenient basis for identifying the effect of changing asset levels on the system of budgetary control over cash appropriations.

In the principal departmental accounting system, it may also be desirable to report major exceptions either as an analysis of the total balance or as charges to responsibility centres for such items as obsolete, slow-moving, or damaged inventories, or for under-utilization of equipment or real estate.

6. Control of Receiver General Cheques

It is an accepted principle that Receiver General cheques, other than those for payments to employees, must be mailed by the drawing officers directly to the payees. This ensures that cheques do not pass to departmental officers. In the event that cheques are declared undeliverable by the Post Office, they are returned to the services office that mailed them, a control that is lost if cheques are mailed by a department using its own stationery.

Recognizing that there are some instances when it is essential for cheques to be passed to departments for transmission to payees, Treasury Board requires each deputy head to designate for each of his departmental programs those particular classes of payments for which authorized officers may request that cheques be sent to other officers of the department. Officers to be designated by the deputy head for this purpose should be at the director level at departmental headquarters; in regional offices, such a person should be the highest-ranking financial or administrative officer. The classes of payments that may be designated will usually be selected from the list that appears in Appendix E. Also in Appendix E is a list of classes of payments for which departments may not request the cheques under any circumstances.

Experience has shown that failure to exercise adequate control over cheques after they have been drawn and forwarded to a department renders them vulnerable to fraudulent practices, which can lead to significant losses. The handling of cheques before dispatch to payees is thus a function that requires firm controls and the maximum division of duties. Cheques must never be placed in the hands of persons who have requisitioned the payments or who have participated in any of the earlier stages of the procurement, receiving, certification, and account verification processes. For this reason, the distribution of cheques for all classes of payments must be performed only by persons taking functional direction for this purpose from the senior financial officer.

The most significant class of payment for which the forwarding of cheques to departments may be authorized is that covering payments to employees for salaries, wages, allowances, and expenses, and advances on all such payments. For these purposes, payments to employees cover payments to all persons employed under the *Public Service Employment Act*, members of the Canadian Armed Forces, and the Royal Canadian Mounted Police. In conformity with the principle prescribed in the preceding paragraph, the distribution of cheques to employees must not be performed by officers engaged in any part of the staffing, classification, salary, and wage assessment functions or in the preparation and signing of staff pay certificates.

Release of Pay Cheques

Pursuant to paragraph 7(f) of the Cheque Issue Regulations, the Treasury Board directs that deputy heads may release pay cheques for the following personnel:

— those employed outside the Ottawa-Hull area, on the official pay day, or the immediately preceding business day;
— those employed in the Ottawa-Hull area, on either of the two business days immediately preceding the official pay day; and
— those whose day of rest falls on the official pay day, or either of the two business days immediately preceding the official pay day, on the working day immediately preceding the day of rest.

Cheques payable to employees who are not contributing to the Superannuation Account must be held until the official pay day. The official pay day is every second Friday, beginning April 11, 1969 (T.B. Circular 1969-23). When the official pay day falls on a day during which the banks are not open to the public, the business day immediately preceding such a non-business day is deemed to be the official pay day. In all cases

when pay cheques have been released before the official pay day, the banks may cash them in advance of the date shown thereon.

Identification of Payee on Cheques and Warrants

Failure to fully identify a payee increases the possibility of error and the opportunity for forgery of endorsements. Experience has shown that when a surname is used with one or two initials, it can be mailed to a wrong address, cashed by another person in the same household who has the same name and initials, or, as in the case of a salary cheque, it can be given to and cashed by the wrong person. For these reasons, when the payee is a person or persons, the surname and at least one given name should be on any requisition or document, or any other kind of record presented to a cheque-issuing officer for payment.

All systems for the production of payment requisitions and paying instruments must have a capacity for recording a surname and at least one given name and an initial.

7. Departmental Bank Accounts

It is a policy that payments be made through the normal payment facilities of the Receiver General. Departure from this policy is authorized by the Cheque Issue Regulations, part II, which cover departmental bank accounts established for operating an accountable advance in accordance with the Accountable Advances Regulations. This section should be read in conjunction with both regulations.

Establishment of a Bank Account

The Deputy Receiver General may approve the establishment of a departmental bank account on the request of the appropriate deputy head, provided that:

- the account is located in an area where the Department of Supply and Services does not have the facilities to provide expeditious cheque issue service;
- the classes of payments that may be paid out of the account are restricted to:
  - accountable trip advances as authorized by directives, e.g. the Travel Directive;
  - reimbursement of travel trip expenses;
  - reimbursement of expenditures made from a standing travel or petty cash advance;
  - payment of term and part-time employees employed locally, when such authority is available or has been delegated by the Minister of the Department of Supply and Services;
  - payment of postage and customs duties; and
  - payments for local supplies and services of an urgent nature.
- the maximum amount that may be drawn on the account does not exceed $500, with respect to any one transaction, except as approved by the Treasury Board under the Accountable Advances Regulations; and
- the classes of deposits permitted under section 12 of the Cheque Issue Regulations are not exceeded.

Payments from departmental bank accounts must not be made for:

- emergency salary advances;
- service charges by banks (section 99, *Financial Administration Act*); and
- interdepartmental settlements.

Two signatures are required to authenticate a cheque.

Requests to deviate from the requirements set forth above will require the prior approval of Treasury Board.

Application for a Bank Account

The following minimum information should be included in applications for a departmental bank account:

- the name in which the account will be established;
- the name of the bank and branch in which the account will be maintained;
- the classes of payments to be made out of the account;
- the amount of the advance, which should not exceed the amount needed to meet contemplated expenditures adjusted for any seasonal requirements, taking into consideration the reimbursement cycle involved and allowing a reasonable time to obtain reimbursement;

- the number of signatures required on cheques, the position titles and/or levels of the positions of signing officers; and
- the person, designated by the deputy head, to whom the bank will forward the statement of transactions and all cheques that have been honoured.

Accounting and Control Procedures

Deputy heads are responsible for the procurement, safe keeping, and control of blank cheque forms. They must ensure that security procedures are followed in this regard, in writing and signing cheques, and in delivering or mailing signed cheques.

Financial manuals should include instructions for:

- requiring the use of CGSB Form 18;
- ensuring that cheques are written in such a way that the amount cannot be altered;
- dividing responsibilities that relate to requisitioning payments and to signing and distributing cheques;
- establishing, replenishing, increasing, reducing, and closing the account;
- receiving and depositing money;
- reconciling the account each month;
- issuing duplicates or replacements of lost cheques;
- voiding cheques issued;
- specifying the manner in which a bank may be directed to refuse payment of a cheque drawn against the account;
- handling uncashed cheques (returned as undeliverable or not returned);
- handling forged endorsements;
- handling fraud-raised cheques;
- making income tax and other payroll deductions, and completing T4 and TP4 forms for the appropriate taxation office;
- prohibiting overdrafts;
- refunding immediately to the Consolidated Revenue Fund, once the need has passed, the additional deposits to departmental bank accounts intended to meet abnormal or seasonal expenditure requirements; and
- issuing, maintaining, and refunding standing travel and petty cash advances when they are authorized by Treasury Board to be made from departmental bank accounts.

Section 99 of the *Financial Administration Act* prohibits banks from making a charge for cashing a cheque or other instrument. Care should be exercised when opening and maintaining accounts that documents are not signed that authorize the bank to make such charges.

8. Petty Cash Advances

The deputy head of each department or agency is responsible for assessing the need for and determining the amount of petty cash advances. He must also ensure that proper procedures are followed for the control and safe keeping of such advances.

Accounting and Control Procedures

Financial manuals should contain adequate accounting and control procedures for petty cash advances and should include the following instructions:

— Petty cash expenditures should be made when it is not practical to pay for them by Receiver General or departmental bank account cheque.
— When a departmental bank account cannot be used, consideration shall be given to the payment of all items below $10 from petty cash. When there is no direct contact with the payee, a bank or postal money order can be used.
— The authorized amount of a petty cash advance shall not exceed the amount necessary to meet the contemplated expenditures, adjusted for any seasonal requirements. The reimbursing cycle should be taken into consideration, and a reasonable amount of time should be allowed.
— The holder of an advance should normally be required to submit his expenditures for approval and reimbursement on a monthly basis. This should be done more frequently if a large volume of expenditures is involved.
— The transferring of responsibility for an advance for petty cash expenditures may be effected by a refund of the existing advance by the present holder and the requisitioning of a new advance in favour of the new holder. It may also be made formally by a written record of the transfer, including a summary of the cash count, the vouchers on hand, the signatures of the transferor and transferee, and the verification by a senior officer.
— The designated holder of an advance should be provided with written instructions on the control and safe keeping of petty cash advances and should be required to sign a statement that the instructions have been received, read, and understood.
— The advance holder should normally be a continuing full-time employee who has no other responsibilities associated with the handling of accounts receivable or account verification and payment requisitioning.
— Petty cash advances may not be used for change float purposes, for making personal advances to employees, or for cashing cheques.
— All vouchers submitted in support of a cheque for reimbursement are required to be cancelled in a manner that will preclude any possibility of their reuse.
— The advance is to be safeguarded in a lockable cash box, which may be kept in a filing cabinet with a properly affixed locking bar and approved padlock. Any other container that provides equivalent protection would also be suitable.
— Periodic unannounced verifications of the advance should be made to determine the proper use of the funds and to ensure that they are adequately protected against loss or misuse and are properly accounted for.
— When a deficiency is disclosed by a verification, the details shall be reported promptly to the superior of the advance holder and to the senior full-time financial officer of the department, who shall, after reviewing the circumstances of the case, take corrective action in the manner prescribed by regulations and departmental instructions.
— When an overage is discovered it should be deposited and credited to the departmental miscellaneous revenue account.

9. Corporate Credit Cards

Introduction

For the purposes of this section, the following terms are defined:

employer. A department or agency.

employee. A person appointed to a department or agency on an indeterminate basis.

corporate credit card. Any credit card that has been sponsored by a department or agency.

misappropriated reimbursed business charges. Authorized charges on the corporate card for which the employee has been specifically reimbursed by the employer but for which the card-issuing company has not been paid by the due date.

unauthorized personal charges. Charges incurred by an employee on the corporate card issued in the name of the employee that do not directly or indirectly benefit the employer and that were not otherwise authorized by the employer pursuant to policies, authorizations, or other directives of the employer.

It is the policy of the Treasury Board that credit cards shall not be issued to employees. It is recognized, however, that certain departments have a requirement for such cards. When this is the case, a card shall be issued only on the specific written authorization of the deputy head. This authority shall not be delegated.

As a general rule, a deputy head shall only authorize the use of a credit card that has no fee related to it. In rare circumstances, a fee-bearing card may be authorized.

The deputy head shall report each year, to the Ministers of the Treasury Board, which employees have credit cards (effective June 30 of that year) and the reason for issue. Credit card plates shall show the name of the employer as well as the name of the employee.

Choice of a Corporate Credit Card

When deciding which credit card to use, a department shall take into account the liability on the employer and other factors, such as billing systems, credit conditions attached to the card, the employee's requirements, annual card costs, seniority, and level of employment of the employee.

The employer may pay annual credit card fees, provided that the amounts are approved by the Treasury Board and that the fees can be justified, e.g. in providing a card with particular features. Corporate deposits, required for some credit cards, shall be made by the Department of Supply and Services. Departments shall ensure that no corporate deposits are held in their names. Individual deposits, required for some credit cards, shall not be paid.

Conditions under which a Card is Provided

Deputy heads shall ensure that when a corporate credit card is issued, the employee will acknowledge that he has read and agrees to the conditions under which the card is provided. As a minimum, these conditions will include the following:

— Any standing advances in the employee's name shall be reviewed, with the purpose of recalling amounts surplus to requirements.
— All travel expenses charged on a corporate credit card must be pre-authorized as required by the travel directive.
— The employee shall submit all approved travel or other business charges made on the corporate credit card on an expense claim within 15 days of completion of the travel and shall obtain payment in the usual manner, by Receiver General cheque. The employee shall make settlement directly with the credit card company.
— The card shall only be used by the employee in whose name it is issued, and only for authorized expenses incurred by that employee while he is in travel status.
— All travel expense claims that relate to credit card charges shall be supported by the detailed invoice and the copy of the charge record received by the employee at the time of the transaction. This will allow the approving officer to verify, as required, the name of the company supplying the service, date, amount of expenditure, and signature of the employee.
— The card shall not be used when the cost of the service received will be increased by doing so.
— Any expenditure resulting from misuse, misappropriated reimbursed charges, or other type of defalcation shall be reported immediately by the deputy head to the Treasury Board.
— The abuse or infringement of any requirements issued either by the Treasury Board or the employer shall constitute grounds for cancellation of the card, closing of the account, and recovery of the outstanding amount, in full, from money due.

In cases of loss or theft of a credit card, the employee shall immediately notify the department and the credit card company. The department shall make a written confirmation of the loss or theft to the credit card company.

Settlement of Accounts

A separate monthly account shall be provided for each card. This will facilitate the monitoring and control of accounts. Accounts shall be billed to the employee and may be sent to his home address or to a departmental address as specified by the department.

Departments shall arrange for accounts to be paid directly by the employee to the credit card company. Monthly accounts or statements shall be monitored by a departmental financial officer by means of a control report (which some credit card companies provide), by having accounts directed through a financial officer to the employee for payment, or by some other method.

Monitoring shall consist of a review of the previous balance, new charges, credits, and total due, including past due amounts. The department shall ensure that the card is used in accordance with departmental policy, and that the balance in the account is maintained in a current position. Except for items in dispute between the employee and the credit card company, the employee shall be responsible for payment of the account in full by the due date. Disputes should be resolved quickly. The financial officer monitoring the accounts shall take appropriate action if the account is not maintained on a current basis. Time payment plans shall not be utilized on corporate credit card accounts nor shall the employee obtain cash advances by tendering the card to financial institutions or other organizations.

Credit card charges shall not be paid directly by the department, except when closing an account, or in the event of default, misuse, or the transfer or termination of the employee. At such time further payments shall not be made to the employee for expense claims charged on credit cards.

Failure by the user to make payment for charges by the due date shall constitute grounds for cancellation of the card. Expense claims, however, shall be processed promptly by departments so that employees can receive cheques in sufficient time to meet payment due dates. Under no circumstances will the Government of Canada absorb an interest charge on an overdue account.

When a credit card account is in default or the credit card has been misused, the department reserves the right to recover the outstanding amount, in full, from salary or other payments due to the employee and to pay the account prior to cancellation of the card.

When an employee is transferred or terminated, immediate steps shall be taken to establish the outstanding amount and to cancel the credit card. The department shall assume payment of the account and discontinue further payments to the employee of expense claims that have been charged on credit cards. Sufficient funds shall be retained from money due at termination to ensure full payment of the account. When the account has not been cleared within 60 days the department shall take immediate steps to pay the account by offsetting salary or other money due.

Appendix A Delegating Signing Authorities

Delegation Document

A delegation document may take one of several forms. Exhibit A of this appendix is a delegation document in chart form. This form provides the most concise and effective means of displaying and disseminating the necessary information.

Regardless of its form, a delegation document should permit the following items to be recorded for each authority granted:

— organizational position to which the authority is granted;
— organizational or program area covered by the authority;
— type of authority granted;
— maximum dollar limitation on the authority;
— specific exceptional signing authority that needs to be exercised to meet restrictive conditions or administrative requirements in local offices; and
— identity of senior officials who may impose more restrictive local dollar limitations on their subordinates at their own discretion.

The type of authority should be clearly delineated as:

— spending authority;
— authority to give commitment certificates; or
— payment authority.

Exhibit A

Financial Signing Authorities Chart

Department of

Position Title	Area of Authority	Spending Authority – Commitment Authority	Spending Authority – Expenditure Initiation												Contract Performance Sec. 27 *Financial Administration Act*								Payment Authority Sec. 26 *Financial Administration Act*											
		Commitment Cert. – Sec. 25(1) F A A	Requisitioning of Supplies & Services	Purchase Orders (Non D S S)	Local Purchase Orders	Emergency Purchase Orders	Requisitions on D S S for Purchases	Requisitions on C G S S	Requisitions for Printing DSS & CGPB	Departmental Stores Requisitions	Authority for Travel	Authority for Removal	Requisitioning for Staff		Professional Services	Supplies and Other Services	Travel Claims	Removal Claims	Personnel Pay Actions	Local Payrolls			Professional Services	Supplies and Other Services	Travel Claims and Advances	Removal Claims and Advances	Other Accountable Advances	Source 50 Fiscal Journal Vouchers	Encumbrance of Funds to O G D	Personnel Pay Actions	Local Pay Lists	Emergency Salary Advances	Transfer Payments Regular	Transfer Payments – Supplementary
	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35
Headquarters																																		
Deputy Minister	whole dept.	F	F	F	$25	F	F	F	F	F	F	F	F			(Enshrined in Section 27)							F	F	F	F	F	F	F	F	F	F	F	F
Asst. Deputy Ministers	own program	F	50M							F	F	F	F		F	F	F	F															F	F
Branch Directors	own branch	F	25M							F	F		F		F	F	F																F	F
Division Chiefs	own division	F	10M							F	F		F		F	F	F																	
Section Heads	own section	F	5M							F	F		F		F	F	F																	
Director of Finance	whole dept																						F	F	F	F	F	F	F					
Chief, Financial Services	whole dept.																						25M	25M	25M	25M	F	25M	25M					
Head, Accounting Services	whole dept.																						10M	10M	10M	10M								
Director of Personnel	whole dept.											F						F	F	F										F	F	F		
Chief, Staff Services	whole dept.																		F	F										F	F	F		
Head, Pay and Allowances	whole dept.																		F	F										F	F	F		
H.Q. Personnel Officer	H.Q. only																		F	F										F	F	$500		
Director of Administration	whole dept			F	$25	F	F	F	F																									
Chief, Purchasing & Supply	whole dept.			50M	$25	1M	50M	50M	50M																									
Head, Purchasing	whole dept			10M	$25	1M	10M	10M	10M																									
Regional Offices																																		
Regional Director	own region	F	25M							F	F		F		F	F	F																F	F
Asst. Regional Director	own region	F	25M							F	F		F		F	F	F																F	F
Regional Division Officer	own division	F	10M							F	F				F	F	F																F	F
Regional Financial Officer	own region																						25M	25M	25M									
Regional Accountant	own region																						10M	10M	10M									
Regional Personnel Officer	own region																		F	F										F	F	$500		
Regional Staff Services Officer	own region																		F	F										F	F	$500		
Regional Admin. Services Officer	own region			25M	$25	1M	25M	25M	25M																									
District Offices																																		
District Manager	own district	F	10M	10M	$25	1M	10M	10M	10M	F	F				F	F	F		F	F			10M	10M	10M					F	F	$500	F	
District Financial and Administrative Officer	own district	F	10M	10M	$25	1M	10M	10M	10M	F													10M	10M	10M								F	
District Personnel Officer	own district																		F	F										F	F	$500		

Every officer of the department appointed to a position listed in Column 1, including any officer appointed officially on an acting basis, is hereby granted financial signing authority in accordance with the departmental manual and subject to the restrictions appearing in Notes 1 through 4 appearing hereon, in respect of the area of the department shown in Column 2 against such position, for spending authority, authority to give commitment certificates or payment authority for such functions covered by Columns 3 through 35 in those instances where a maximum dollar limitation or full authority is indicated in any one or more of those columns.

Notes:

1. The symbols appearing in Columns 3 through 35 indicate the maximum dollar amount of limitations imposed on signing authorities
   a. F Full authority within budgetary limits and subject to Note 2
   b. M $000s (i.e. 25M $25,000)
2. Every maximum dollar limitation shown is subject to lower limitations imposed in specific circumstances by Executive Order or on the instructions of the Minister
3. All maximum limitations indicated are general limitations, and lower limitations may be imposed on a local basis, where desirable, at the discretion of branch and regional directors
4. At district offices, District Directors will exercise payment authority, apart from that in regard to transfer payments, only in the absence of the Financial and Administrative Officer or Personnel Officer, as appropriate, and the Financial and Administrative Officer will exercise spending authority only in the absence of the District Director

Note to the reader This sample chart is compiled solely to demonstrate basic principles in granting and communicating signing authorities. It is not intended to indicate all the functions likely to require coverage within any particular department or to show how that department should grant and restrict such authorities

Exhibit B

Signing Authorities — Grants and Contributions

	Review Prior to Payment				Recommendation of Application				Approval of Application				Signature of Agreement		Spending Authority		Payment Authority
	Program A Grants	Program B Contributions	Program C Grants	Program D Contributions	Program A Grants	Program B Contributions	Program C Grants	Program D Contributions	Program A Grants	Program B Contributions	Program C Grants	Program D Contributions	Program B Contributions	Program D Contributions	Program B Contributions	Program D Contributions	All Programs
Review Committee	F	F	F	F													
Deputy Minister	F	F	F	F					F	F	F	F					F
Directors					F	F	F	F	F	F	F	F			F	F	
Division Chiefs					25	10	25	10					100	100	100	100	
Director of Finance													F	F	F	F	F
Head, Accounting																	F

Minister ____________ Date ____________ Deputy Minister ____________ Date ____________

Appendix B Requirements for Standard Specimen Signature Cards

Standard Specimen Signature Card CGSB 136A

Exhibit A of this appendix illustrates the standard specimen signature card.

The standard card, CGSB 136A, shall be used when submitting specimen signatures to the Department of Supply and Services. It is recommended as an acceptable standard for internal use by departments.

The following information shall be entered on the card:

- name of incumbent and card number;
- name of department and branch;
- position title, location, and date of appointment;
- type and coverage of authority delegated;
- specimen signature of incumbent;
- authenticating signature of responsible officer;
- general restrictions on authority; and
- local restrictions on authority.

The card shall be signed by the incumbent and certified by an authenticating officer who is a responsible superior, such as a branch or regional director.

When details relevant to the authorities and restrictions cannot be fully accommodated on the face of a card, the balance of the information shall be shown on the reverse.

The special wording applicable to signature cards for use by the Department of Supply and Services is as follows:

Payment Authority: "Full Authority" or "Subject to an authorized maximum amount of $...... per payment requisition or other charge against an appropriation".

Exhibit A

Standard Specimen Signature Card

Incumbent — Titulaire	Card No. N^{o} de carte
Department — Ministère	Branch — Direction
Position and Location — Poste et lieu de travail	Date Appointed Date désignée
Signing Authorities — Fondés de signature	
Incumbent's Signature du titulaire	Authenticated by — Authentifiée par

Government of Canada **Gouvernement du Canada**

SPECIMEN SIGNATURE **SPÉCIMEN DE SIGNATURE**

CGSB standard form 136A
Formule normalisée 136A de l'ONGC
7540-21-870-5249

Appendix C Charts for Division of Duties

Exhibit A
Division of Duties Related to Account Verification and Payment Requisitioning

(applicable to small responsibility centres)

Description of Procedures	Responsibility Centre	Financial Unit
Accumulate all documents related to the receipt of goods or services.		
Carry out assigned procedures required by the Account Verification and Payment Requisition Regulations.		
Certify under section 27 of the *Financial Administration Act.*		
Forward all documents to the financial unit servicing the responsibility centre.		
Prepare cheque requisitions; batch and total all transactions for forwarding to the services office.		
Review documentation; conducted by officers with payment authority who perform sample tests, ensure the availability of funds, and sign the requisition as required by section 26 of the act.		
Forward batch to services office.		

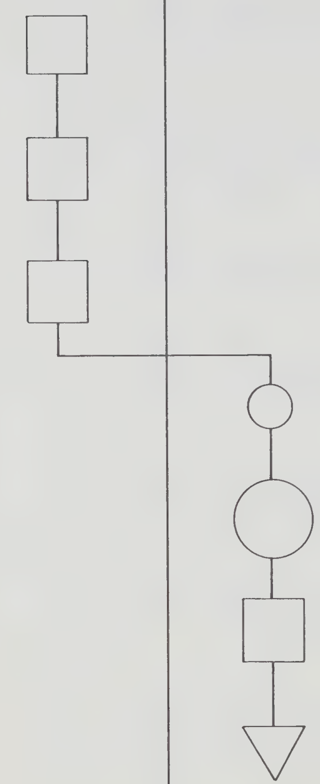


Exhibit B

Division of Duties Related to Account Verification and Payment Requisitioning

(applicable to large responsibility centres)

Description of Procedures	Responsibility Centre		Financial Unit
	Manager	Administrative Unit	
Accumulate all documents related to the receipt of goods or services.			
Carry out assigned procedures required by the Account Verification and Payment Requisition Regulations.			
Forward to responsibility centre manager.			
Certify under section 27 of the *Financial Administration Act.*			
Forward all documents to the financial unit servicing the responsibility centre.			
Prepare cheque requisitions; batch and total all transactions for forwarding to the services office.			
Review documentation; perform sample tests; ensure the availability of funds and certify under section 26 of the act.			
Forward batch to services office.			

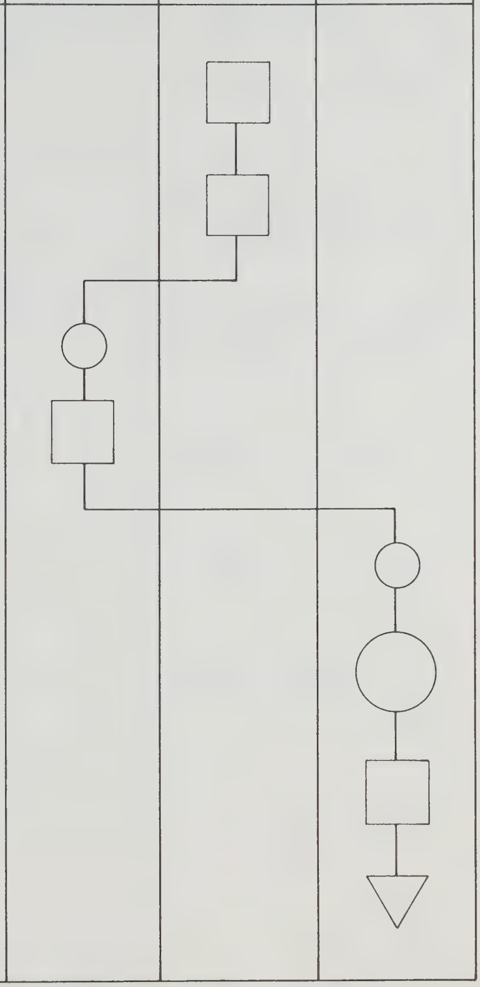


Exhibit C

Division of Duties Related to Account Verification and Payment Requisitioning

(applicable to administrative units that are within the responsibility centre or to separate organizations, such as materiel management or personnel)

Description of Procedures	Responsibility Centre Manager	Administrative Unit	Financial Unit
Accumulate all documents related to the receipt of goods or services.			
Carry out assigned procedures required by the Account Verification and Payment Requisition Regulations.			
Certify under section 27 of the *Financial Administration Act.*			
Forward all documents to the financial unit servicing the responsibility centre.			
Prepare cheque requisitions; batch and total all transactions for forwarding to the services office.			
Review documentation; perform sample tests; ensure the availability of funds and certify under section 26 of the act.			
Forward batch to services office.			

Exhibit D

Division of Duties Related to Account Verification and Payment Requisitioning

(applicable to highly centralized, service-type departments, and to headquarters operations of decentralized departments)

Description of Procedures	Responsibility Centre	Financial Unit	
		Pre-Audit Section	Payment Section
Raise or obtain all documents related to the receipt of goods or services.			
Forward all documents, separately or together, to the pre-audit section.			
Carry out assigned procedures required by the Account Verification and Payment Requisition Regulations.			
Certify under section 27 of the *Financial Administration Act.*			
Prepare cheque requisitions; batch and total all transactions for forwarding to the services office.			
Forward batch to financial officer with payment authority.			
Review documentation; perform sample tests; ensure the availability of funds and certify under section 26 of the act.			
Forward batch to services office.			

Exhibit E

Division of Duties Related to Account Verification and Payment Requisitioning

(applicable to pay processing)

Description of Procedures	Responsibility Centre	Personnel Unit Pay and Benefits Section	Financial Unit Payment Section
Accumulate documents related to employee pay action.		□	
Complete required pay input forms consistent with various regulations and pay system input procedures		○	
Independently verify and certify under section 27 of the *Financial Administration Act.*		□	
Batch and total for forwarding to the services office.		○	
Forward batch to financial officer with payment authority.			○
Review documentation, perform sample tests, ensure the availability of funds and certify under section 26 of the act.			□
Forward batch to services office.			▽

Appendix D Techniques for Accounting for Inventories

Introduction

This appendix describes alternative accounting methods to effect financial control over inventories of materiel and equipment when circumstances indicate the need for such control.

The choice of method used to exercise financial control over inventories will depend upon the benefits to be attained relative to the cost.

The actual form of the inventory records can vary from handwritten working papers or ledgers to sophisticated mechanical or electronic inventory control systems.

Recording of Inventories of Materiel

The following variations are considered:

— use of subsidiary and control accounting records;
— use of control accounting records only; and
— inventory accounting in the absence of formal records by periodic stocktaking.

Subsidiary and Control Accounting Records

In this method all entries in the departmental subsidiary system are recorded individually or in total in a control account in the principal departmental accounting system. These entries include the costs of all receipts and issues; quantity shortages or overages identified through physical stock counts; and deletions of obsolete, damaged, or excess stock. The subsidiary system should be regularly reconciled with the control account.

Control Accounting Records Only

For economy and simplicity, a subsidiary system may record quantities of inventory only, but in these circumstances each receipt or issue transaction should be assigned a value for entry in a control account in the principal accounting system. Periodically, the quantity balances shown on the subsidiary system should be priced and reconciled in total with the control account.

Periodic Stocktaking System

A system for accounting for inventories based on physical stock counts may be suitable only when it is uneconomic or very difficult to record each receipt and issue in the accounting system. In these circumstances, the amount of inventory used in a month or fiscal year may be determined by physical stock count on the basis that the opening inventories, plus purchases during the period, less closing physical inventories valued at unit cost prices, represent the net cost of inventories consumed in the period. The purchases in the period should be determined directly from the departmental accounting system, using line objects to obtain the necessary detail. The computed net cost of inventories consumed in the period is allocated in the accounting records on an appropriate and equitable basis, depending upon requirements for financial reporting. A degree of financial

control over such inventories can be obtained through analysis of variances between actual and budgeted costs to ensure that the rate of consumption of inventories and total stock levels are in line with the level of operating activity.

Physical Counts

Whatever the accounting system, there is a need to perform physical counts to prove that there have been no serious lapses in either physical custody or accounting controls over inventories.

Physical counts should be performed, summarized, and verified with inventory records by persons who are independent of the inventory custodians. Financial officers should participate directly in the planning, performance, and review of physical counts to ensure independence in the determination of quantities, physical condition, and values of inventories.

Valuation of Inventories of Materiel

Inventories of materiel may be accounted for at cost by the following methods:

— Establishing what direct and indirect expenses are to be included in or excluded from cost. For example, the cost of goods in a warehouse may be recorded at the price paid to the supplier or may include shipping, handling, and warehousing costs.
— Establishing how costs are to be allocated to individual items in inventory. For example, costs may be recorded on a specific, average, or standard basis.

A standard costing system is recommended for most applications because it provides a good basis for financial control; serves the needs of those responsible for the materiel management function; and does not require complex accounting methods.

In this system, materiel acquisitions are recorded in the control account and subsidiary system at standard cost, with any resulting differences in the purchase price and shipping costs being recorded in a separate account. The balance in this separate account will represent accumulated price variances for each category of item, an analysis of which may disclose unrealistic standards, or favourable or unfavourable purchasing arrangements in the period. Issues from inventory to operations are also recorded at standard cost. At any point in time the total standard cost of all physical inventories on hand should be equal to the balances in the subsidiary accounting system and to the total in the control account. When standard costing is used, the standards should be realistically determined. Established standards should be reassessed on a systematic basis once each year or, if appropriate, on an exception basis during the year. When a new standard is introduced, existing inventories should be revalued and the applicable adjustment should be recorded in the accounts.

Work in Process

A work-in-process system should be used to determine the costs of manufacturing or processing operations. In such a system labour and raw-material costs are identified in relation to individual operations or projects, and other costs are allocated on an appropriate basis. Separate control accounts are operated for each cost component. These act as clearing accounts for inventories of work in process; they are charged with raw materials, labour, and other costs as they are entered into the productive process and are relieved of these costs as products are completed and transferred to finished-product inventories. Separate control accounts are also

maintained for raw materials and finished products. This enables accurate costs to be determined on a period-by-period basis and permits the investment in raw materials, work in process, and finished goods to be controlled.

Inventories of Equipment

The *Guide for Materiel Management in Government*, issued by Treasury Board in Circular No. MI-1-65 and amended by Circular No. 1968-25, sets out certain accounting principles with respect to equipment that should be adhered to by all departments:

> "While in inventory, equipment should be accounted for in the same manner as other items. Once issued for use, central records should be maintained to reflect distribution either geographically or by individual operating units.
>
> "To preserve the continuity of responsibility for equipment in use, operating units should maintain records of the internal distribution of equipment."

There should be adequate accounting controls over the equipment records to ensure that they are complete and accurate. This includes maintaining a direct link with the principal departmental accounting system to ensure that all assets acquired and processed through the cash records are also included in the equipment records. For example, the total-dollar values of purchases as recorded in the equipment records should be reconciled with appropriate line-object totals created for that purpose in the classification of accounts and shown in financial reports. This would require a minimum of extra work, since computer reports that summarize the data in a useful way could be developed easily. As a minimum standard, when it is not practical to maintain dollar values in the detailed equipment records, no cheque requisition with respect to equipment should be processed unless it bears evidence that the item has been entered into the equipment records.

It should not always be necessary to integrate equipment records fully into the departmental accounting system, but information with respect to the total cost of equipment on hand at a responsibility centre should be available on request. There are circumstances, however, when it would be useful to report information on equipment by memorandum in departmental financial reporting systems. This may include a monthly or annual depreciation charge to allocate the cost of each item of equipment over its useful life and to provide an estimate of the current depreciated value of each item or of the total equipment on hand. Such depreciation charges should be equitably computed and consistently applied for each individual item or for each class of item, based on usage statistics or on a straight time consideration.

When it is desired to integrate equipment records with the principal accounting system, this can be done through the use of contra accounts.

Appendix E Classes of Payments for which Authority to Request the Forwarding of Receiver General Cheques to Departments May or May Not Be Granted

Introduction

When the deputy head authorizes the senior financial officer to request the forwarding of Receiver General cheques to the department, he should confine his selection to the following classes of payments:

(1) payments to employees

— salaries and wages
— allowances
— travel, relocation, and other reimbursable expenses
— advances relative to the above
— foreign-service loans

(2) payments involving legal transactions

— real estate acquisitions
— contract releases
— damage claim releases

(This class does NOT include payments against Crown debts that have been assigned or are subject to a power of attorney.)

(3) payments involving special banking transactions

— contributions and subsidies deposited for rapid transfer
— transfer of funds abroad

(4) payments transmitted by diplomatic courier

(5) payments requiring classified security handling

(6) payments to other governments and Crown corporations

— loan payments to be exchanged for promissory notes
— large payments transmitted under special arrangements

(7) payments requiring formal presentation

— grants presented personally by ministers or deputy heads
— honoraria and expenses paid to visiting lecturers and seminar speakers
— suggestion and merit awards
— per diem fees paid to board and commission members

(This class does NOT include payments to contractors, consultants, etc.)

(8) cash required for immediate service

- postage meter charging and other postal charges
- customs clearance
- vehicle licences
- bus and toll tickets
- sheriffs' fees
- petty cash advances and replenishments

(9) recurring payments requiring administration

- transportation contracts
- administered pensions and allowances
- payments to native peoples
- social welfare payments—special payments

(10) loan payments to individuals to be exchanged for promissory notes

The following are the classes of payments for which the passing of cheques to departments may not be requested:

- payments for supplies and services, including consultants' fees and personal service contracts or other similar arrangements, but excluding those requiring a contract release;
- payments to be presented personally by a departmental employee or picked up by the payee (other than administered recurring payments listed above);
- payments representing refunds of revenues and receipts; and
- payments to be transmitted under cover of a letter or other document.

Chapter 10
Accounting and Control of Revenue and Accounts Receivable

1. Directives and Guidelines

Directives

- Adequate controls, including independently maintained control accounts, shall be incorporated into the relevant operational and financial systems to ensure that:

  — accounts receivable claims are issued whenever cash is not collected prior to the provision of goods or services;
  — amounts claimed are correct as to quantities and prices for goods or services provided;
  — claims are entered promptly into departmental records;
  — prompt and vigorous action is taken to collect all claims, including amounts due from other departments; and
  — claims are not removed from departmental records until satisfied by payment or by properly authorized deletion action.

- All money received as tax revenue, non-tax revenue, or other receipts shall be safeguarded, accounted for, and promptly deposited.

Guidelines

- Non-tax revenue should be collected before providing goods or services; when this is not possible, an accounts receivable billing should be issued as soon as administratively feasible after goods or services have been provided.

- Departments should determine the limits of the collection actions that are both warranted and feasible on the various types of accounts receivable, examine on a regular basis all overdue accounts when such action has been exhausted, and initiate action to delete uncollectable accounts promptly.

- Similar records and procedures to those used for the normal accounts receivable of a department should be used for loans and advances, since these are special categories of accounts receivable. Supplementary records and procedures may be required according to the circumstances and statutory authorities under which the loans and advances are made.

2. Introduction

Background

The Public Accounts Committee, the Auditor General, and Treasury Board have all pressed for more vigorous action by departments to claim revenues at realistic rates, to control claims outstanding, to utilize adequate collection procedures (thereby ensuring that all debtors of the Crown meet their obligations), to ensure that money received is adequately safeguarded and accounted for, and to ensure that money received is deposited and transferred to the credit of the Receiver General without delay. Whenever it is economically and administratively feasible, departments ought to charge for all goods supplied or services rendered to the public, unless there are provisions for specific exemption.

Classification of Funds Received

Funds received may be classified as two main types: public money and non-public money. Public money is defined in section 2 of the *Financial Administration Act* as:

"all money belonging to Canada or collected by the Receiver General or any other public officer in his official capacity or any person authorized to receive or collect such money, and includes

(a) duties and revenues of Canada,
(b) money borrowed by Canada or received through the issue or sale of securities,
(c) money received or collected for or on behalf of Canada, and
(d) money paid to Canada for a special purpose".

Non-public money consists of funds received that are defined as non-public money in a statute, such as the *National Defence Act*, and money that a public officer or other authorized person may collect on behalf of third parties, and that remains the property of those third parties.

Public money is often classified according to either the manner in which it is controlled by Parliament (budgetary revenue and non-budgetary receipts) or by major sources (tax revenue and non-tax revenue).

Budgetary revenues are those which affect the annual budgetary surplus or deficit of the government; they may in turn be classified into tax revenue and non-tax revenue. Non-budgetary receipts are those which do not affect the annual budgetary surplus or deficit of the government but do affect the government's Statement of Assets and Liabilities; these receipts result from the payment of financial claims owing to the government, credits to the social security and superannuation accounts (which are treated as non-budgetary), and such other accounts as are reported on the Statement of Assets and Liabilities.

Tax revenue consists of proceeds from income tax, sales tax and other excise taxes, excise duties, customs duties, estate tax, and certain other miscellaneous taxes; tax revenue is the major source of revenue for the government. Non-tax revenue includes returns on investments, postal revenue, and a variety of receipts from fees, sales, charges, and recoveries.

3. Internal Control over Revenue and Accounts Receivable

Objectives of Internal Control

Internal control over revenue and accounts receivable must ensure that the government collects all money it is entitled to, and prevents or promptly exposes instances of error, fraud, and omission.

The senior financial officer is responsible for establishing procedures to ensure that:

- all revenue opportunities for goods, services, or levies are promptly pursued, consistent with policies on user charges and departmental objectives;
- the users are correctly charged for all levies, goods, and services;
- resulting charges are promptly recorded as either cash receipts or accounts receivable;
- vigorous collection action is exercised over all accounts receivable;
- resulting collections are all accounted for; and
- periodic reports are made for local and headquarters management that adequately summarize sales and credit activities and reveal the current status of accounts receivable.

Systems, methods, and procedures for control over revenue and accounts receivable should be developed and updated with the same diligence as for expenditures. The Office of the Comptroller General can provide assistance in developing these systems, methods, and procedures.

Responsibility for Internal Control

Departments are responsible for determining the precise procedures to be followed and the ancillary records to be maintained to ensure that all revenue and accounts receivable transactions are adequately accounted for to meet the requirements of this chapter. Each department should set up procedures and records that match the requirements of its own operations. If different procedures and records are required for different programs, locations, or organizational units, the department should proceed accordingly. The major elements of internal control are covered below.

Prompt recording and deposit of revenues and receipts

Good internal control over revenue and accounts receivable stresses prompt recording of all sales and collections, and prompt deposit of money in a bank. This reduces opportunities for falsification of records, errors of omission, and losses or theft of money.

Segregation of duties

One of the most important elements of internal control over revenue and accounts receivable is the segregation of duties among employees. The basic principle of this segregation is to establish a complete separation of duties so that persons handling cash do not have access to accounts receivable records. There should be a complete three-way segregation of duties between functions related to credit granting, accounts receivable maintenance, and cash handling.

Depending on organizational structure, availability of staff, materiality of amounts, alternate controls, and other particular conditions, departments should arrange for complete segregation or, at the very least, a judicious

combination of the duties related to credit functions (order processing, preparation of shipping or work order, credit authorization, record of shipping or work performed, invoicing, approval of non-cash credits); accounts receivable maintenance (control of serially numbered forms, entries in subsidiary ledger, preparation of aged trial balances, mailing of monthly statements, follow-up on delinquent accounts, entries in the general ledger); cash handling; and reconciliation.

Another key way to control revenue and accounts receivable is to prevent continuous control of any one function by any one employee over many years. Mandatory annual leave remains a good means to expose undesirable practices.

Integration and design of records

The accounting records of a department must be designed to make maximum use of operational information and to provide a complete audit trail. Receipt and invoice forms should be based on or, preferably, incorporated into, operational documents.

The audit trail must permit, through cross-references, the tracing of any transaction from inception to final outcome, e.g. from customer orders to work orders, shipping documents, invoices, payment documents or credit notes, and accounts receivable.

Control accounts

Control accounts must be embodied in the system to ensure the integrity and reliability of individual subsidiary accounts. Each office responsible for maintaining accounts receivable is required to operate a control account; control accounts also must be kept at departmental headquarters. Subsidiary records must be balanced monthly to control accounts, and aged trial balances must be produced for review by officers at senior levels.

Monitoring

Effective internal control demands close monitoring and periodic reconciliation. Departments must provide for control of the serial-number sequence of documents, both at the time of issue and periodically thereafter. At the central, divisional, and local levels, sales should be periodically totalled and balanced to cash sales and sales on account; accounts receivable to sales on account and receipts; and reported sales to changes in inventory and level of production or activity. Current results should be compared to established patterns. Analysis of aged trial balances of accounts receivable is required to minimize bad debts.

4. Establishment of Rate Structures

Services Provided to the Public

Types of services

Services to the public under departmental programs fall into two categories: those provided because of the collective political choice and those provided on the basis that the use of services requires payment of a price.

services to the general public. These are services that satisfy the needs of the public as a whole, and from which everyone stands to benefit, for example services related to law enforcement, covering the activities of the police, the courts, and the penitentiary service. Since everyone benefits, it is considered equitable that the costs of the services be borne through general taxation.

services to persons. These are services of public importance rendered by the government to individuals or groups of individuals, either at their specific request or arising from their actions, for example the issuing of passports, the supervision of racetracks, and the supply of prosthetic devices. Since these services are usually rendered at the option of identifiable individuals or groups of individuals, the cost of the services should be borne by them.

In addition to services to the public rendered on request, there are other services principally of a regulatory nature, for which the individual who receives the service is conferred a personal benefit—for example, inspection services such as those relating to weights and measures. Since the individual is conferred a personal benefit, he may be required to pay for it.

Statutory authority

Section 53 of the *British North America Act* vests control of the public purse in Parliament: "Bills . . . for imposing any Tax or Impost shall originate in the House of Commons". The major pieces of legislation through which Parliament has established rate structures are: *Income Tax Act*, *Customs Tariff Act*, *Excise Act,* and *Excise Tax Act*. The White Paper, prepared each year by the Department of Finance and tabled in the House of Commons, provides a framework for Parliament to discuss the budget as a whole and to discuss and vote on each individual measure for raising new taxes or for increasing those charges and fees traditionally set by Parliament.

Section 13 of the *Financial Administration Act* empowers the Governor in Council, on the recommendation of Treasury Board, to prescribe by regulation fees and charges for services. In addition it enables the Governor in Council, again on the recommendation of the Treasury Board, to authorize ministers to prescribe fees and charges with respect to their departmental programs "notwithstanding the provision of any other Act". In order to obtain this latter authority, departments are required to submit to Treasury Board a proposed scheme under which their minister would set fees and charges for a particular program. Such proposals should contain details of the following:

- the pricing policy proposed;
- the components of cost on which prices will be based;
- the cost accounting system being operated to determine the elements of direct and indirect costs;
- the computation of the results of the first changes from any statutory rates it is intended to implement; and
- the proposed time period for a cyclical review of costs and charges, normally one year.

It must be recognized that the government will not wish to have this responsibility delegated for all programs and services. In certain instances, such as some postage rates, the approval of fees and charges has remained as a traditional right of Parliament.

Once approved, departmental policies on the establishment of rate structures must be documented in the departmental financial manual.

Pricing policy

Charges for a service to the public should first be considered in the light of rates that will recover the full cost of the service, including all direct costs and the appropriate portions of indirect costs incurred both by the department itself and by other departments on its behalf. Recovery of total costs cannot, however, be justified in all circumstances. When a service is of a regulatory nature, a fee or charge fixed on a total cost basis may not be warranted. Fees or charges for regulatory services may be collected from the ultimate user of the service or from an intermediary who received the service directly and has to consider this expense as a cost of doing business. Circumstances vary considerably from case to case, and when departments are in doubt as to which policy to adopt they are advised to consult Treasury Board staff.

Departments should levy no charge when the incremental cost of collection would constitute an unduly large part of the total receipts, unless the government intends to restrict a service.

In many sectors, the government's expressed policy is to set prices at levels that will promote certain social or economic goals, for example, the use of national parks. This prerogative also must be considered when setting fees or charges for service.

Review of rates

Rates prescribed by regulations are normally drafted by departments and agencies and forwarded for review to Treasury Board in the form of a submission. After review, the submission is presented for approval and promulgation to the Governor in Council. When services to the public are being provided, departments should regularly review fees and charges to determine whether charges should be introduced or adjusted in the light of changes in the costs of the services in social and economic orientations or in revenue policies. This will prevent the levying of fees that are unrealistically low in relation to current costs. Since the doubling or trebling of existing fees to bring them in line with current costs inevitably results in adverse public reaction, regular review and adjustment are desirable.

A suitable time for such a review is at program forecast, when program costs in general are reviewed. If rate structures are not changed at this time, the reasons for this should be documented.

Although primary responsibility for initiating action to revise rates rests with operating staff, the senior financial officer retains functional responsibility over this important financial aspect.

5. Claiming of Revenue and Receipts

Point of Recognition

Revenue and receipts must be recognized as early as possible at the point of sale, that is, when the goods or services are provided or when the event giving rise to the claim takes place. It is government policy to collect revenue and receipts at that point whenever possible, thus eliminating collection costs. In all cases, it is imperative that the transaction be recorded promptly to prevent instances of error, fraud, or omission.

Claims on Parties outside the Consolidated Revenue Fund

Forms of settlement

Fees and charges for goods and services should be collected in the form of cash, money orders, or cheques prior to the provision of the goods and services. However, settlement can take the form of a charge to a trust account within the Consolidated Revenue Fund, a revenue trust account (i.e. an account in a chartered bank) kept in the name of a department, a commercial credit card account, or a customer's account with the department. The choice between these forms of settlement will normally be made after considering the following:

— administrative cost to the department;
— convertibility or resale value of the goods or services provided;
— collection risks;
— effect on the demand for the service, and hence on the social and economic impact of the program;
— inconvenience to the user; and
— generally accepted practice for the type of goods or services provided.

Acceptance of credit cards

Payment for goods and services provided may be received in the form of a commercial credit card settlement. However, this practice is acceptable to the government only if all costs associated with acceptance of credit cards are built into the rate structure.

Avoidance of certified cheques

The government has agreed with the Canadian Bankers' Association to reduce the once widespread requirement for certified cheques, an instrument ill-suited to the banks' electronic data processing systems. Thus, departments and agencies should refrain from demanding such an instrument whenever the amount is small or the risk is low, or the department is in a position to apply an instant sanction against any person who may present a cheque and not have sufficient funds in the account.

Interdepartmental and Intradepartmental Settlements

In recent years there has been a significant increase in the volume of charges made for services between departments, programs, and votes; the principal reasons for this increase have been the establishment of certain services within government on the understanding that they be partially or totally self-sustaining. Departments that have supplied goods and services to other departments should take prompt action to collect the amounts due

to them. Debtor departments must make prompt payment for all goods and services supplied by other departments. When one department spends funds on behalf of another, it should require from the other department a certificate, under section 25 of the *Financial Administration Act*, that the funds have been committed.

Transfer of costs between departments, programs, or votes may be made through journal vouchers or interdepartmental settlement advices. The normal procedure is for the creditor department to initiate the recovery when an interdepartmental settlement advice is used; journal vouchers are usually initiated by debtor departments. Both departments are required to enter the transaction in the same fiscal year.

Granting of Credit

Credit policy

The granting of credit carries a significant cost to the government: funds must be borrowed at a high cost; a portion of the accounts receivable may become uncollectable; and considerable expense is incurred on the various credit functions, such as credit investigation, billing, record-keeping and collection. On the other hand, acceptance of credit may present benefits. It can contribute to the expansion of a service, thus fostering the social or economic impact of a program and possibly reducing the unit cost; it may represent a greater convenience to the user of a service; and it may simply be the accepted way of operating in certain markets.

Senior management must develop a policy on the types of services that may be provided on credit, the terms of credit, the acceptable level of credit risk, and the point at which service will be discontinued to delinquent debtors. These policies must be reflected in the departmental financial management manual. Measures must be taken to keep credit at the lowest level compatible with departmental policies.

Terms of credit

Goods and services will not be provided on extended payment terms, as is the practice in the private sector. All invoices will bear the term *net cash*. Therefore, no discount will be allowed for prompt payment nor any penalty exacted for late payment unless provided for by legislation or by contract.

Credit officer

Every department and agency providing goods or services on credit should assign an officer with responsibility for credit-management functions. These responsibilities include:

- elaborating an overall departmental credit policy for approval by senior management;
- establishing procedures for handling the various credit functions;
- assessing the reasonableness of the level of credit through ratios such as days sales outstanding, turnover of receivables, or average collection period, and ageing of accounts;
- monitoring follow-up of delinquent accounts and ensuring a vigorous collection effort;
- advising departmental staff on particular situations that may affect the credit sales policy; and
- reviewing departmental credit policy regularly, at least once a year.

The duties of this officer must be segregated from any functions related to handling of cash, sales, and bookkeeping, when such segregation is justified by the volume of credit operations.

Invoicing

Because government policy requires the payment of fees and charges before the provision of a service (to the maximum extent feasible), deferred terms of payment should only occur in a limited number of cases.

When goods and services are not paid for when provided, an invoice or other type of debit note will be issued as soon as possible thereafter. When goods and services are provided on a continuing basis or over a long period of time, invoices should be issued at regular intervals. Depending on volume, departments should use periodic billing instead of waiting until month-end.

Non-Cash Credits

Strict control over the issuing of credit notes serves two objectives: first, it will prevent fraud and errors through unauthorized credits; second, control of credit notes and analysis of the reason for issue will assist in identifying deficiencies and weaknesses in credit policies, collection practices, quality of products, packaging, and transportation.

An audit trail must be kept of all non-cash credits to accounts receivable, which must be properly authorized as required by legislative regulations or executive direction. The authorization must include the following:

— a remission under section 17 of the *Financial Administration Act* must be recommended by the appropriate minister to the Governor in Council and approved by the Governor in Council, as indicated in section 6 of this chapter;
— a remission under any act must be authorized as required in this act;
— a deletion of debt must be authorized as indicated in section 9 of this chapter; and
— when goods are returned, when the charge is levied in error, or when no debt exists, the account receivable should be cancelled by an officer so designated under the departmental delegation of financial authority.

All non-cash credit vouchers should be approved by the highest ranking financial officer in the locality. The duties of any officer authorized to issue credit notes should be segregated from cash-handling duties whenever sufficient staff is available.

Link with Operational Records

Since goods and services are provided by the operational staff of a department or agency, they have the most accurate information on individual revenue-generating actions; accordingly, accounting information for claiming and controlling revenue normally originates from operational staff. The documents that serve at key points in the control of operations must be used to generate, authorize, and support accounting entries. Copies of these documents used in the accounting offices must contain the same authorizations and information as those required by the operational staff to provide the goods or services.

No goods or services will normally be released or provided without an inventory release memorandum, official receipt, cash register slip, certificate stub, or other type of document that serves to log the transaction. For example, in the case of the sale of goods from storage, the system must ensure that every issue from stock is made solely on the authority of a prenumbered requisition; that every requisition is accounted for through serial number control by an appropriate billing section; and that a billing is raised at correct rates for every requisition from stock. In other cases, hospital treatment, for example, it will be necessary to bring several documents together to achieve a complete billing. The in-patient record controls bed-day charges; the theatre log controls

surgery fees; and other appropriate records control extra charges, such as ambulance service and rental of crutches. Complete control involves cross-checking in-patient records with admission and discharge records, and a daily proving of the complete coverage of current paperwork by counting bed patients at midnight.

In addition to ensuring that all revenue is billed and claimed in the correct amount, linking financial and operational records avoids discrepancies between the two. This integration of documents provides an instrument for detecting unreported transactions and taking corrective action.

Format of Billing-related Documents

Billing-related documents must contain all information required to:

- ensure that all goods and services have been or are being charged for;
- ensure that all goods and services have been or are being invoiced at the proper amount;
- allow tracing of each inventory-release memorandum, work order, or other production record to an invoice when applicable;
- allow tracing of each invoice to a cash collection or other credit advice; and
- ensure that revenue records are in agreement with inventory and production records.

Prenumbering of billing-related documents and adequate accounting of the serial numbers are essential elements of good internal control over the revenue process.

Invoices

Billings issued by government departments must include:

- terminology in a form that makes them clearly recognizable as billings;
- adequate identification of goods or services supplied (date, type, quantity, quality, and unit cost);
- details of computation of charges;
- references to clients' orders, if applicable;
- an indication that paying instruments must be drawn in favour of the Receiver General;
- an address to which remittances are to be sent, indicating the name of the department, not that of an individual;
- terms of payment; and
- a preprinted serial number.

Credit notes

Credit notes must contain the following information:

- a description of the goods or services (date, type, quantity, quality, and unit cost);
- amount to be credited;
- reference number of initial invoice;
- reason for the credit;
- reference to any authorizing deletion or remission of debt document;

— signature of officer enabled by the departmental delegation of authority document to approve non-cash credits; and
— preprinted serial number.

Shipping, inventory, and production records

The senior financial officer of the department must ensure that the contents of inventory records (such as stock requisitions and packing slips) and of operational documents (such as work orders and inspection certificates) are designed to allow tracing to an invoice or receipt from beginning to end. For example, a prenumbered inspection certificate may be designed to serve as a receipt, and a common prenumbered document may serve as a sales invoice and an inventory control form.

6. Accounts Receivable

Every invoice for goods or services provided must be entered promptly in the accounts of a department as an account receivable, and the resulting charge cannot be removed from accounts receivable until satisfied by payment or by a properly authorized remission, deletion, or cancellation action.

Accounts receivable are to form an integral part of the departmental accounting system. Full integration is essential to provide visibility and effective control. Hence, control accounts must be maintained at two levels: at the billing centre, as a subsidiary control account, and in the principal accounting system, as a general ledger control account. Accounts receivable records may be maintained manually, mechanically or electronically, or in an open file. However, regardless of the method used, it is essential that the records be kept in the name of the debtor in such a manner that the total indebtedness can be quickly determined and analysed.

Normal Collection Process

Departments must take prompt and vigorous action to collect every account receivable or other debt, including amounts due from other departments. Collection action will differ, depending on the nature and circumstances of the debts. In most instances, routine collection should be taken on a progressive basis, starting with an invoice and continuing with a monthly statement. Monthly statements constitute useful reminders of indebtedness and should be used when warranted by the frequency of transactions or when payment is slow; monthly statements should be submitted on an aged basis to keep debtors fully advised as to both the extent and the condition of their indebtedness.

In addition to the use of statements of account, it is essential that supplementary collection action be taken by telephone, letter, or personal contact. This should be carried out by having progressively senior officers in the department address their peers in the debtor organization. When services or goods are being supplied, senior operational personnel of the branch supplying the services or goods should be brought into the collection process at an early stage. When senior levels in the financial and operating branches become involved in direct contact with the debtor, they should attempt to establish an understanding for prompt settlement in the future, rather than just concentrating on the settlement of accounts outstanding at that time.

After normal collection steps have failed to bring payment of a debtor's account, more stringent action must be taken. The selection between the choices described below includes considerations of cost and effectiveness.

Collection of Delinquent Accounts

Recovery from claims against the Crown

On occasion, a Crown debtor is also a Crown creditor in another area of government. When a delinquent debtor is not prepared to direct in writing that an amount owing to him be applied against his obligation, recovery action should be instituted under a statute that permits immediate recovery if possible. If this is not practical, the authority of general application of section 95(1) of the *Financial Administration Act* should be used.

When the person who is indebted to the Crown gives a written authorization, in a form acceptable to the Receiver General, to retain the amount of the debt out of money owing to him by the Crown, the Receiver General may act upon such direction. All such authorizations are to be forwarded to the Legal Branch, Department of Supply and Services, for approval on behalf of the Receiver General.

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The Receiver General is authorized by section 95(2) of the *Financial Administration Act* to recover overpayments of salary, wages, pay, or allowances out of any money payable by the Crown to the person to whom the overpayment was made, or to his estate. The debtor department has to identify the creditor department and inform the Receiver General of the recovery to be made. Where an employee ceases to be employed other than by death, recovery is to be made of an amount representing salary for any leave taken in excess of earned credits, unless recovery is precluded by his terms of employment.

Section 31 of the *Financial Administration Act* provides for recovery of accountable advances or any portion thereof if they were not repaid or accounted for within the period following the end of the fiscal year specified by the Treasury Board. The outstanding amount may be recovered out of any money payable to the person to whom the advance was made. When a person to whom an advance is made ceases to be employed or dies without accounting for or refunding an advance, recovery is made out of any money payable to him or his estate.

A number of other acts provide for retention of indebtedness incurred pursuant to an act out of money subsequently payable to the debtor or some other person either under the same act (e.g. the *Public Service Act* and other superannuation acts, the *Old Age Security Act,* and the *Family Allowances Act*) or against any money payable by the Crown to a debtor or his estate (e.g. *Customs Act*).

Section 95(1) of the *Financial Administration Act* provides that any type of indebtedness to the Crown in right of Canada may be retained by the Receiver General out of any money payable to the debtor, or to his estate, if in the opinion of the Minister of Justice the person is indebted "in any specific sum of money", and authority of the Treasury Board is obtained. This set-off procedure may be applied to any money payable by the Crown unless the statute regulating the payment by the Crown contains a stipulation that the money is not attachable and expressly states that the Crown in right of Canada is bound thereby.

Departmental submissions to effect recovery by set-off must be signed by the minister, supported by any relevant material, and must indicate:

— that no fault on the part of the department contributed to the existence of the debt;
— that the proposal has been discussed with the department required to effect recovery to ensure there are no adverse repercussions on that department's requirement, and whether or not the other department agreed to the set-off; whenever the debtor department did not concur, the reason advocated by the debtor has to be stated; and
— the rate and amount of recovery is reasonable and will not cause undue hardship.

Amounts collected by set-off will be recorded as revenue and the appropriation charged with the full amount payable.

Offers of realizable security

When a debtor is not in a financial position to immediately pay an amount in full, and particularly if the amount owing is large, good realizable security may, with the advice of the Department of Justice, be accepted to protect the Crown's interest. The Crown's interest should not be protected by accepting share capital of a debtor corporation or an affiliate without consent of the Treasury Board.

The approval of the Governor in Council is ordinarily required where a mortgage, hypothec, lien, privilege, or other charge on any property is to be accepted as security for the payment of a debt due the Crown. In such circumstances, a submission setting out all relevant details, including a full description of the proposed security, should be sent to the Treasury Board for review and advice.

Securities held on satisfied obligations may be released or discharged by the appropriate minister acting on the advice of the Department of Justice in accordance with the jurisdiction where the securities were registered or located.

Court proceedings

In addition to criminal, civil, and common law, the major authorities concerning claims by the Crown are the *Department of Justice Act,* the *Federal Court Act*, the Federal Court Rules, and the Claims Regulations. The Attorney General of Canada is charged with the regulation and conduct of all litigation for or against the Crown or any public department. All cases involving legal proceedings must be referred to the Department of Justice, which will handle the case or appoint a legal agent to act for the department. Any money or costs awarded to the Crown shall be paid by cheque in favour of the Receiver General and delivered to the appropriate officer of the court. This applies also in respect of proceedings in the court, unless the Minister of Justice makes an arrangement that they be dealt with in the same manner as provincial court fees. Any court cost or damage awarded to the Crown must be entered into the accounts receivable records immediately. No money received as a result of court proceedings may be credited back to an appropriation.

When the court denies a claim made by the Crown, the judgement constitutes sufficient authority to remove the claim from the accounting records. The adjustment to the accounting records must be made through a prenumbered non-cash credit voucher, as described in section 5 of this chapter.

Garnishment

A number of federal statutes, for example, the *Income Tax Act,* authorize the garnishment of money payable to a debtor of the Crown. In any other circumstances, garnishment proceedings are subject to the laws of the province in which the garnishment order is to be implemented.

When it is economical or when a matter of principle is involved, departments may initiate garnishment proceedings upon the advice of the Department of Justice, after other collection methods have failed.

Use of collection agencies

Recourse may be made to collection agencies when the amount of the claim is relatively small, when this means of collection is more economical than others, and when no undue hardship would result. Appropriate care should be taken to avoid adverse public reaction.

Collection-agency fees are to be charged to the operating vote of the program administering the particular claim.

Compromise settlement

The Department of Justice has ruled that, when a compromise settlement of a debt is arranged with its concurrence, the original debt is automatically expunged and replaced by the amount of the agreed settlement. The accounts receivable records will therefore be adjusted accordingly, in the manner outlined in section 5 of this chapter.

Locating missing debtors

All reasonable action must be taken to locate a missing debtor, taking into account the amount of the obligation and the administration and collection expenses that may be incurred. There are a number of tracing sources available to departments to assist them in locating debtors. These include:

— information available in other federal government departments and agencies, such as Post Offices, Employment and Immigration Canada offices, etc.;
— information available in provincial government departments and agencies, such as the Motor Vehicles Licence Bureau, etc.; and
— information and services available from commercial credit organizations.

Bankrupt debtors

When a debt is owed by a person who, since the debt was incurred, has declared bankruptcy, the creditor department must file a proper claim with the trustee in bankruptcy within the prescribed time and make every effort to recover the amount from the bankrupt estate in accordance with normal procedures.

The *Bankruptcy Act* provides that the law of set-off applies to all claims made against the estate and to all actions instituted by the trustee for the recovery of debts due to the bankrupt debtor. Hence, when the Crown owes money to a bankrupt debtor, only the excess of the debt over the receivable may be paid out so as to protect the Crown's interest.

An order of discharge of the bankrupt releases him from all claims provable in bankruptcy except those pertaining to fines or penalties imposed by a court, bail bonds, liabilities arising out of defalcation, fraud, or false pretences, etc. Hence, where an order of discharge has been granted to both the trustee and the bankrupt, the department will adjust the accounts receivable by the amount of the debt less any dividend received from the trustee. The entry in the accounts receivable records will be made through a prenumbered non-cash credit voucher for the amount of the debt, less any dividend received, as described in section 5 of this chapter.

When bankruptcy proceedings have reached the stage where the trustee has been discharged, but no order of discharge has been granted to the bankrupt (e.g. bankrupt corporations are never discharged unless payment is made), the possibility of collection of the debt should still be investigated through bankruptcy officials. All those uncollectable debts and claims which are not released by bankruptcy proceedings are to be deleted in accordance with section 9 of this chapter.

Claims Arising from Defalcations by Public Officers

A defalcation or other fraudulent act or omission by a public officer gives rise to a claim against that officer. A Public Officers Guarantee Account has been established to provide a central recording of losses due to acts or omissions of public officers and a means of reimbursing other accounts for the losses incurred.

The Public Officers Guarantee Regulations in this guide set out the procedures for reporting such defalcations and for the submission of claims against the account.

It is a requirement of section 4(b) of the regulations that the Treasury Board be notified of all defalcations irrespective of whether or not a claim against the Public Officers Guarantee Account may be required. Unless

losses due to defalcations can be recovered by the Crown in the fiscal year in which they occur or are discovered, departments and agencies should seek Treasury Board authority to reimburse their appropriation for such losses from the Public Officers Guarantee Account before the end of that fiscal year.

Requisitions for payment of claims approved by Treasury Board should be addressed to the Financial Services Division of the Treasury Board Secretariat, which provides accounting services with respect to the Public Officers Guarantee Account.

Remission

Remission of debt action may be taken when an enforceable, collectable claim by the Crown would cause undue hardship or impose an unfair burden on a person. Remission of debts differs from deletion, in that deletion applies primarily to uncollectable debts.

The cancelled portion of a debt is extinguished whenever a remission is unconditional or whenever the conditions set for a conditional remission are met. The balance of the debt remains in the accounts receivable for collection.

There are two authorities of general application concerning remissions: in civil matters section 17 of the *Financial Administration Act* and in criminal matters the seldom-used Royal Prerogative set by item XII of the 1947 Letters Patent granted to the Governor General. Authorities of more restricted application have also been granted through a number of statutes. When the act authorizing the charge also provides remission authority, remission should be made under that act instead of under an authority of more general application; as well, remission action is to take precedence over any deletion action unless the debt proves uncollectable. In cases of fraud, no remission may be made.

Section 17 of the *Financial Administration Act* empowers the Governor in Council on recommendation of the Treasury Board to remit in whole or in part any tax, fee, or penalty whenever he considers it in the public interest. Remissions under this act may be total or partial, conditional or unconditional, and may be granted any time before or after payment. When a partial remission is made, only the portion remitted will be written off; the other portion will remain a valid charge. When a conditional remission is effected, performance of the condition justifies the write-off of the remitted portion of the debt. When payment of a debt has already been made for a remitted charge, it may be paid out of the Consolidated Revenue Fund. Each remission of one thousand dollars or more granted under section 17 of the *Financial Administration Act* must be reported in the *Public Accounts*.

Limitation of Action on Accounts Receivable

Section 38(1) of the *Federal Court Act* provides that:

> "Except as expressly provided by any other Act, the laws relating to prescription and the limitation of actions in force in any province . . . apply to any proceedings in the Court in respect of any cause of action arising in such province. . . ."

Provincial statutes of limitation prescribe that legal actions cannot be taken for debts after a period of years, depending on the province and type of debt. Where there was fraud, the limitation period starts at the time the fraud was discovered or when reasonable diligence would have resulted in its discovery. Advice on specific cases should be obtained from the Department of Justice.

Departments must arrange for court proceedings before prescription or limitation of action take effect. Alternatively, a written acknowledgement of indebtedness or part payment will be obtained to preclude extinction of legal rights.

7. Receipt and Deposit of Public Money

Sections of the *Financial Administration Act* read as follows:

11 (1) "Subject to this Part, all public money shall be deposited to the credit of the Receiver General.

(2) "The Receiver General shall establish, in the name of the Receiver General, accounts for the deposit of public money with such banks and fiscal agents as are designated by the Minister.

(3) "Every person who collects or receives public money shall keep a record of receipts and deposits thereof in such form and manner as the Treasury Board may prescribe by regulation.

(4) "Every person employed in the collection or management or charged with the receipt of public money and every other person who collects or receives public money shall pay all such public money to the credit of the Receiver General in such manner as the Treasury Board may prescribe by regulation."

Treasury Board has issued the Receipt and Deposit of Public Money Regulations to cover these requirements.

Receipt of Public Money

Section 4 of the above regulations requires the following:

"Every person who collects or receives public money shall:

(a) keep a register in which he shall record the collection or receipt of all public money collected or received by him; and
(b) upon request, or where directed by the appropriate Minister, issue a receipt or acknowledgement for any public money collected or received by him in cash."

It is essential that all procedures prescribed for the receipt of public money call for the most stringent precautions to ensure the capture of all revenue at the moment it is collectable directly from the public or received on departmental premises.

Upon receipt of currency, and whenever the remitter requests it, any person accepting public money must issue a receipt or other form containing an acknowledgement of receipt. When convenient, the acknowledgement of receipt should be embodied in operational documents, for example, as park circulation permits or produce inspection forms. Receipt forms must be serially prenumbered, and strict control must be kept on these forms. A mechanical device such as a cash register can also provide good control over receipts. As soon as possible after receipt, remittances must be entered into a register as required by section 4 of the regulations; whenever possible, departments should utilize a register similar to the Cash Receipts Register available from the Department of Supply and Services, unless immediate entry is made into an electronic system. All mail directed to a department or to an individual should be opened in a central mail room. Arrangements must be made for two persons to be present at the mail opening and for an immediate record to be made of receipts, whether they are in the form of currency, cheques, money orders, or other instruments. When practical, a member of the financial staff should attend the mail opening, participate in identifying any money received, enter the receipts into a daily register of receipts or cash blotter while still in the mail room, and sign and obtain the signature on the register of the member of the mail room staff who was the second person present throughout the entire proceedings. These steps should be carried out before the money is removed from the mail room. The senior financial officer of a

department or agency remains functionally responsible for ensuring that the mail-opening procedures and the contents of the daily register of receipts meet the minimum financial requirements outlined in the *Mail Room Management Handbook*, available from the Public Archives.

All cheques and other negotiable instruments must be quickly endorsed "For Deposit to the Account of the Receiver General".

Post-dated cheques

Effective control must be kept over all post-dated cheques. Control procedures must include examining cheques for validity; registering the particulars at time of receipt and disposal; storing the cheques in a secure place until retrieval; annotating the due date on the accounts receivable records; and reviewing the cheques periodically for the negotiability date.

Year-end Procedures

The Government of Canada generally reports revenues and other receipts in the accounts of Canada in the fiscal year in which they are received. Specific accounting practices and legislation require that the following revenues and receipts be allocated to the fiscal year just ended:

— revenues and receipts deposited and credited to the Receiver General by the Bank of Canada or any other bank by March 31;
— revenues and receipts received on or before March 31 but not deposited until April or not credited to the Receiver General by the Bank of Canada until April;
— refunds of expenditures related to the fiscal year just ended received after March 31 but before the end of the extended 30 days provided for by the *Financial Administration Act;*
— revenues and receipts received on the first working day after the end of the fiscal year, when it is clear that the remitter's intention was to discharge an obligation of the fiscal year just ended; and
— interdepartmental settlement transactions related to the fiscal year just ended are processed prior to the closing of the accounts of Canada.

Refunds of revenues are allocated to the fiscal year in which the refund payment is actually made. The Receiver General issues annual instructions for year-end procedures.

Safeguarding of Public Money

Deputy heads of departments and agencies are responsible for establishing proper safeguards for the safe keeping of public money, and for ensuring that employees entrusted with the safe keeping of public money properly exercise those safeguards.

Systems should be designed and implemented to ensure the physical security of public money held during and after working hours and to incorporate control techniques. These techniques normally include limiting the availability of keys; requiring the combined actions of two persons to access safes, vaults, and cash-recording machines; protecting combination locks; and designing procedures for:

— prompt recording of public money;
— counting and signing off when sums of money change hands;

- arranging alternative routes and times of deposit;
- frequent deposits to the bank to minimize the sums on hand;
- use of night deposit service when large sums of money would otherwise be kept on the premises overnight; and
- use of armoured car services when volume warrants it.

The senior financial officer is functionally responsible for ensuring that arrangements for safeguarding and transporting these sums of money meet the safe-keeping standards administered by the departmental security officer. The criteria to be considered for the safe-keeping arrangements will include:

- the average and maximum amounts of money held in cash;
- the average and maximum amounts of money held in the form of other negotiable instruments;
- the importance of non-negotiable instruments such as surety bonds to be held;
- the security in the immediate office area and in the building; and
- historical or potential risk of break-in, unauthorized entry, or theft.

Bank Deposits and Transfers

All public money must be deposited promptly into the Receiver General account in the Bank of Canada, or in a chartered bank and then transferred to the Bank of Canada. Since the Receiver General cannot use public money until it has been transferred to the Bank of Canada, delays in depositing and transferring public money may result in a significant cumulative increase in the cost of borrowing. All public money must be credited to the account of the Receiver General in the Consolidated Revenue Fund. The following are the only exceptions permitted:

- refunds for current-year payments made out of a departmental bank account may be credited to that account; and
- money received for a special purpose may be credited to a revenue trust account established for that purpose under authority of the Revenue Trust Account Regulations.

All money received must be deposited immediately. However, the President of the Treasury Board may agree, upon request from the department, to allow withholding a small sum of money from the previous day's receipts for cash float purposes.

Deposit and transfer methods

Under sections 6 and 7 of the Receipt and Deposit of Public Money Regulations, there are three alternative methods for depositing receipts to the credit of the Receiver General.

The first of these methods, which is being eliminated, is to deposit the money into a transfer account. Transfer accounts are opened by the Department of Supply and Services at the request of a department in the name of the Receiver General in a branch of a bank that has been approved for the purpose by the Minister of Finance. These accounts are opened solely for the deposit of money and cannot be used for any other purpose. The deposits may accrue until a transfer to the Receiver General Account with the Bank of Canada must be made. Transfers are initiated by presenting to the bank a Requisition for Bank Settlement; the bank then issues to the depositor a Bank Settlement Voucher in favour of the Receiver General.

The second method is to take the receipts and a Requisition for Bank Settlement to the branch of a chartered bank designated by the Receiver General and to obtain from the bank a Bank Settlement Voucher in favour of the Receiver General for the total receipts. This method does not require the use of a transfer account, but the deposit facility must be approved by the Receiver General.

The third method involves depositing public money directly to the Receiver General account at an agency of the Bank of Canada in Ottawa. The department will then obtain a Deposit Receipt for the amount. Depositing at the Ottawa agency of the Bank of Canada is the usual practice for departments whose headquarters are in the Ottawa-Hull region.

While the third deposit method entails delivering public money to its final destination, the other two methods require transmission of documents to the Bank of Canada. There are two transmission methods: remitting to departmental headquarters for deposit to the Ottawa agency or remitting directly to the nearest agency of the Bank of Canada. The current practice is for minor revenue-collecting departments to arrange internally for immediate remittance of all transfer documents to headquarters for inclusion in the deposit made on the day of receipt to the Ottawa agency in accordance with sections 7 and 8 of the Receipt and Deposit of Public Money Regulations.

When they have been so requested by the Receiver General, major revenue-collecting departments will expedite the transfer by transmitting the documents directly to one of the agencies of the Bank of Canada located in the major cities of Canada. These agencies operate a same-day transfer by telex to the Ottawa agency.

Frequency of deposits

Section 6 of the Receipt and Deposit of Public Money Regulations specifies the regularity with which departments must deposit receipts in banks, regardless of the method of deposit used. Departments are required to make deposits every day when $100 or more is on hand, and in any case not less frequently than once each week when a lesser amount is involved. These requirements are written into the regulations on the premise that the overwhelming majority of government revenues are collected in offices within easy reach of a branch of a chartered bank. However, when revenues are collected in isolated locations, such as camping grounds in national parks, departments should not spend too much time or money to meet the precise requirements of section 6. The President of the Treasury Board may authorize extensions to the time within which public money is required to be deposited. Where exceptional circumstances exist, such as in isolated places, authority may be requested for time extensions. Authority for depositing on a less frequent schedule is normally contingent on the availability of adequate safe-keeping facilities on departmental premises.

Frequency of transfers

The Receiver General has the prerogative of prescribing the times at which the balances must be transferred; transfers must be effected as soon as the balance in the transfer account exceeds $10,000, and otherwise at least once each week. The transfer must be for the total amount in the transfer account. Departments must arrange for deposits to be made to Bank of Canada agencies before the daily cut-off time of the agencies.

Deposit of Bank Settlement Vouchers should never be delayed pending accounting distribution, since this would deprive the government of immediate use of money.

Monitoring and reconciliation to central accounts of Canada

Every month, departments must reconcile the cash receipts reported by the Bank of Canada to the accounting information entered into the central accounts. The documents required to perform this reconciliation will usually include the credit advices from the Bank of Canada, deposit receipts and requisitions for bank settlement stamped by the Bank of Canada, and cash blotters and computer reports received from the Department of Supply and Services. A copy of this reconciliation should be sent to the Receiver General.

The date stamped on requisitions for bank settlement provides departments with the means to monitor the frequency of deposits and the timeliness of transfer to the Bank of Canada. Each department must also monitor the serial continuity of requisitions for bank settlement to prevent losses of public money.

Deposit before Repayment

Subsections 14(2) and (3) of the *Financial Administration Act* provide authority for money to be repaid to the payer in such circumstances as those where the purpose for which the money was paid has not been fulfilled; the amount is in excess of that payable; or it is determined not to be public money. Each of these subsections requires repayment to be in accordance with the Repayment of Receipts Regulations made by Treasury Board. The main requirement of the regulations is that where money is received under circumstances that make it public money, all such money received must be paid into the Consolidated Revenue Fund before any repayment is made.

Dishonoured Instruments and Losses of Public Money

All losses of public money must be reported with all known facts to Treasury Board immediately when discovered. After investigation, the department will again report to Treasury Board through a submission for a charge to an appropriation, a claim on the Public Officers Guarantee Account or a statement of the recovery action taken and its results.

Dishonoured cheques

When a cheque is dishonoured, the reimbursement procedure arranged with the Canadian Bankers' Association requires the bank to return the dishonoured cheque with its claim for reimbursement and requires the department to send a Receiver General Cheque to the bank for the amount of the returned item. The department must then promptly set up or reinstate an account receivable, as the case may be. The drawer of the dishonoured cheque will then be requested either to have this cheque certified or to replace the dishonoured cheque.

Cash shortages

Cash shortages are normally the responsibility of employees. Cash shortages and overages will be treated in the manner prescribed for petty cash advances in Chapter 9 of this guide.

Theft and counterfeit money

All such losses of money must be immediately reported to the police.

Revenue Trust Accounts

When departments receive funds that they are required to hold in trust, such as the funds of Indian bands or the personal money taken for safe keeping from persons admitted to hospital, these funds may be deposited to revenue trust accounts. Revenue trust acccounts are bank accounts established at the request of departments, for purposes individually approved by Treasury Board. They are opened by the Receiver General in branches of chartered banks in accordance with the Revenue Trust Account Regulations made by Treasury Board under section 14(1) of the *Financial Administration Act*.

All individual account balances should be reviewed at least periodically, and, when their purpose has been fulfilled, the amounts must be transferred to the Consolidated Revenue Fund at least weekly. Pursuant to section 8 of the Revenue Trust Account Regulations, when their purpose has not been fulfilled but a service has been rendered, the case will be referred to the Treasury Board with a statement of the relevant facts, and the Treasury Board will decide on any amount to be credited to the Consolidated Revenue Fund. Departmental procedures for opening and operating revenue trust accounts should meet all the applicable requirements for departmental bank accounts set out in Chapter 9 of this guide. Sections 5, 6, and 8(1) of the regulations authorize disbursements from a revenue trust account when money was paid into it in excess of the amount prescribed for that purpose, when the purpose for which the money was paid has not been fulfilled in whole or in part, and when no service has been rendered by or on behalf of the government.

In the accounts of Canada, a transaction related to a revenue trust account affects both an asset account and a liability account. The input of revenue trust account transactions in the central accounts operated by the Department of Supply and Services should be made on a monthly basis, generally in the form of a consolidated amount for receipts, for disbursements, and for transfers into the Consolidated Revenue Fund. Balances, which must be equal in both assets and liabilities, must be reported in the *Public Accounts* each year, in accordance with the Receiver General's instructions.

Banks cannot levy service charges on these accounts. Nor do they credit interest to revenue trust accounts. When significant sums of money are held for an extended period of time, operating an interest-bearing account within the Consolidated Revenue Fund should be considered.

Since control over revenue trust accounts cannot be as rigid as control over money credited to the Consolidated Revenue Fund, departments should operate as few of them as possible. When immediate disbursements are not essential, departments should instead hold money in trust within the Consolidated Revenue Fund.

Money Held in Trust in the Consolidated Revenue Fund

Section 15(1) of the *Financial Administration Act* provides that when money is received from the public to be held in trust, this money may be paid into and out of the Consolidated Revenue Fund.

Holding money in trust within the Consolidated Revenue Fund may offer appreciable advantages both to the payer and to the government when immediate disbursements are not required: when so arranged, the payer may get interest on his funds; the government has access to funds at a relatively low cost; and both the payer and the government benefit from the tighter control exercised over the funds. In particular, control is enhanced when cheques are delivered directly to payees.

The records required for trust accounts within the Consolidated Revenue Fund include as a minimum:

- the input in a detailed or summarized manner of all receipt, disbursement, and transfer transactions in a liability account in the financial reporting system operated by the Department of Supply and Services; and
- a form of local register, which provides on a current basis a net balance of amounts credited to each payer for whom money is held in trust. This record must be available for use by the departmental office initiating payment to verify entitlement to reimbursement and to cross-reference each receipt entry with the number of the cheque requisition, journal voucher, or interdepartmental settlement advice.

Payment of interest to such an account must be approved by Parliament or the Governor in Council; any other type of payment from the Consolidated Revenue Fund to such an account requires authority of Parliament. Individual balances in the account should be reviewed at least monthly and, where applicable, transferred to the unappropriated portion of the Consolidated Revenue Fund.

Subsidiary ledgers will be balanced to control accounts at least monthly, in the manner prescribed for accounts receivable in section 3 of this chapter. The summary of activity in those accounts is reported in the *Public Accounts* in the form outlined in Receiver General instructions.

8. Loans and Advances

Loans and advances are a special category of accounts receivable and require, with some variations, records and procedures similar to those used for the normal accounts receivable of a department.

Statutory Authority

Loans may be made:

- under the authority of departmental legislation;
- under the authority of a loan vote; and
- from a working capital advance or special account established for the purpose.

Advances may be made:

- from annual appropriations, under the authority of section 31 of the *Financial Administration Act*;
- under a specific authority included in another statute;
- under the authority of a loan vote; and
- from a revolving fund, working capital advance, or special account.

In addition, standing advances for travel, petty cash, and departmental bank accounts may be made from the Treasury Board Working Capital Advance maintained for this purpose.

Section 31 of the *Financial Administration Act* enables the Treasury Board to make regulations authorizing the making of accountable advances. Such regulations have been made and are known as the Accountable Advances Regulations. Apart from advances specifically authorized by other statutes, all accountable advances are authorized under these regulations and are also subject to any other regulations, or directives made by Treasury Board on matters that may require the issue of accountable advances, including the Travel Directive, Removal Expense Regulations, and the Foreign Service Regulations and Directives. The Accountable Advances Regulations recognize two basic types of advances:

- temporary advances, made for limited purposes, such as the trip travel advances used to finance specific journeys in travel status; and
- standing advances, made in fixed amounts to meet continuing expenditures, such as the standing travel advances issued to persons required to be constantly in travel status.

Deputy heads are authorized by the regulations to requisition advances that enable departmental personnel to carry out programs for which prompt expenditures must be made and normal payment facilities are either not practical or not immediately available. Advances are to be made in amounts not exceeding the expenditures that can be expected to be made from them.

Common Accounting Requirements

Proper follow-up procedures are required to ensure that repayments are made or refunds are received promptly. The senior financial officer is responsible for ensuring that a system is in place that identifies amounts due, taking into account both the time period and other conditions, such as recall from a posting abroad.

Unlike normal departmental accounts receivable, loans and advances made from loan votes and from the balances in revolving funds and working capital advances established to finance loans and advances are treated as active assets of Canada and are included in the Statement of Assets and Liabilities of the Government of Canada. When loans or advances are made under the authority of a loan vote, balances in departmental records must agree with the balances for the particular loan votes concerned in the accounts of Canada. Entries for loans and advances in the accounts of a department should be based on procedures similar to those outlined for accounts receivable in section 6 of this chapter.

Loans

Many different types of loans are made by government departments to a large variety of recipients, including other federal agencies and Crown corporations, other governments, private corporations, federal government employees, groups of citizens, and individuals. While some statutes and appropriation acts name one recipient and set a fixed amount, there are other instances where only types of recipients are identified and no fixed amounts are established. In those cases, departments must establish and document policies and criteria for selection of recipients, determination of the amount, and negotiation of the conditions.

Whenever loans are made, the accounting records must include a schedule of reimbursements that displays at all times the net balance owing to the government from each recipient. When conditions provide for reimbursement less frequently than quarterly, claims for instalments or other repayments of loans should be made in writing prior to the due date. Claims for interest due on loans should likewise be submitted prior to the due date and entered as separate accounts receivable.

Unless the enabling legislation allows for conditional forgiveness of interest, the amount of any repayment must be applied first to the entire sum of interest earned at the time of each instalment and then to the principal.

Collectability of loans has to be assessed as soon as the first payment is missed and thereafter periodically—at least annually; deletion action must be taken when necessary.

Advances from Annual Appropriations

When advances are made from annual appropriations, they are required by section 31 of the *Financial Administration Act* to be charged to the appropriation.

Although the appropriation is charged at the time the advance is made, it is charged only as an advance and not as a payment. It is charged as a payment after the relevant expenditures have been made from the advance, when all the necessary documentation is available for verifying the claim and the required certifications have been made under sections 26 and 27 of the act. At this time the charge as an advance is cancelled, and a monetary adjustment is made by a refund or additional disbursement, according to whether expenditures are less than or greater than the amount of the advance.

In addition to the charge to the appropriation it is essential that advances also be entered in a subsidiary advances record, which is periodically reconciled with the appropriation accounts that record advances. This will ensure that advances are properly accounted for during the year and that outstanding advances are followed up when the appropriation is closed out at the end of the fiscal year.

At the end of each fiscal year all accountable advances from annual appropriations must be accounted for or repaid within 30 days. Treasury Board may grant an extension to this period, which is only given in exceptional

circumstances and usually only in the case of departments with establishments abroad. In the case of advances made for purposes that have not been fulfilled by the end of the fiscal year, all or part of the advance may be transferred to the following year, but this may not be used as a means of deferring accounting for transactions that have taken place prior to the fiscal-year end.

Standing Advances

Standing advances may be requisitioned from annual appropriations, but the vast majority are made from working capital advances authorized by Parliament for this purpose when there is need for continuing financing. Although a small number of departments have been authorized to maintain their own working capital advances for this purpose, a central working capital advance, administered by Treasury Board, is available for providing resources to all departments and agencies.

Departments that have a need to establish standing advances for travel, petty cash, and departmental bank accounts, all of which are maintained on an imprest basis, and such other purposes as Treasury Board may approve, may apply to the Treasury Board Secretariat for an allotment from the working capital advance against which cheques may be requisitioned to establish individual advances. However, departments financing all or a major portion of their operations through a revolving fund or special account will finance travel, petty cash, and departmental bank account advances pertaining to such operations through that revolving fund or special account.

Advances made from the central working capital advance for standing advances remain as a continuing charge against that advance account. Expenditures incurred by individual holders of advances are refunded to them from departmental appropriations with no involvement of the working capital advance in the transaction.

General requirements

To ensure the efficient use of all standing advances and to meet related operational and financial needs, departments will adhere to the following general requirements:

- individual advances are to be made by the issue of a cheque in favour of the individual nominated as holder of the advance, on receipt of a payment requisition signed by a duly authorized person;
- the authorized amount of each advance must be kept to a minimum, making allowance for a reasonable time to obtain reimbursement of expenditures;
- immediately prior to January 1 and July 1 each year, a reassessment of the need for each advance issued must be made;
- for the periods starting January 1 and July 1 each year, each deputy head that has advances issued from the central working capital advance shall submit to the Secretary of the Treasury Board a cash flow forecast showing the total amount of each type of advance that will be required from the working capital advance, indicating the amount and duration of any peak requirement and the total monthly expenditures that will be made from the advances during the six-month period immediately following;
- on March 31 each year, each department shall obtain individual certificates acknowledging the continuing existence and responsibility for each advance that has been issued;
- as at March 31 each year, each deputy head must provide the Secretary of the Treasury Board with a formal acknowledgement certifying the total amounts, by types of advances from the central working capital advance held in his department, in order that he may meet the requirements of the Accountable Advances Regulations as regards reporting for the purposes of the Statement of Assets and Liabilities of Canada; and

— advances that are no longer required shall be refunded through normal departmental procedures by the individual to whom the advance was issued.

Standing travel advances

This section should be read in conjunction with the Treasury Board Travel Directive.

The deputy head of each department should, in addition to the general requirements set out above, apply the following criteria in assessing the need for, and the amount and control of, standing travel advances:

— the employee has to travel on a frequent and regular basis, or other special circumstances will justify the advance;
— the amount will not be in excess of the amount necessary to finance the average requirement for six weeks' travelling expenditures of the employee and, whenever possible, the amount should be limited to the average requirement for one month's travelling expenditures;
— the holder of an advance must submit a claim to cover his expenditures for approval and reimbursement at least once a month;
— to reduce the amounts advanced to individuals, transportation tickets should be obtained through departmental credit facilities; unless otherwise authorized, departments are required to utilize the services of the Central Travel Service of the Department of Supply and Services to the largest extent possible;
— when a credit card is issued to an employee, the need and the amount of the advance shall be reviewed; and
— whenever possible, departmental bank accounts should be used to make trip advances, thereby reducing the necessity for individual standing advances when the holder of the advance does not travel frequently but is too far away from services offices to conveniently obtain trip advances in the usual manner.

Petty cash advances

The authority for making petty cash advances and the provisions respecting them are contained in the Accountable Advances Regulations. This section should be read in conjunction with Chapter 9 of this guide, which sets forth the responsibilities and procedures for operating petty cash advances.

Departmental bank accounts

With respect to departmental bank accounts, the Accountable Advances Regulations provide authority only for making accountable advances that will serve to fund departmental bank accounts. The general requirements set forth for standing advances in this section apply to departmental bank accounts.

The authority for the operation of a bank account funded through an accountable advance is included in part II of the Cheque Issue Regulations. Chapter 9 of this guide provides the regulations and guidelines for obtaining authority to establish and operate a bank account.

9. Deletion of Debts

Section 18 of the *Financial Administration Act* empowers the Governor in Council, on the recommendation of the Treasury Board, to make regulations authorizing deletion from the accounts, in whole or in part, of any obligation or debt due to Her Majesty that does not exceed $5,000.

The Deletion of Debts Regulations delegate authority to delete from the accounts, in whole or in part:

— to the minister of each department, a debt that does not exceed $2,000; and
— to the Treasury Board, on the recommendation of the appropriate minister, a debt that exceeds $2,000 but does not exceed $5,000.

The act makes no reference to debts that exceed $5,000, which means that Parliament has retained the right to delete debts in excess of the amount. Authority is obtained through an item included in the next supplementary estimates, after prior approval by Treasury Board for inclusion of the item. When including an item for deletion in the supplementary estimates, the date and number of the relevant Treasury Board minute approving the inclusion in the estimates should be provided.

Deletion of debts is usually required for one of two reasons: the debt proved to be uncollectable or, although the debt is collectable, it appears to be undesirable to pursue collection on grounds of expediency.

Standing Interdepartmental Committee on Uncollectable Debts Due the Crown

The committee

The committee has been established by the authority of Cabinet and includes representatives from the departments of Justice, National Revenue, Veterans Affairs, and the Treasury Board Secretariat. Its duties include reviewing recommendations from departments and agencies and advising the Treasury Board on the disposition of uncollectable debts due the Crown that exceed $2,000.

In dealing with departmental submissions for deletion of uncollectable debts from the accounts, the committee is empowered to:

— call departmental officers and receive supplementary information from departments with respect to specific recommendations, general departmental collection procedures, and measures taken by departments to avoid recurrence of uncollectable debts;
— report thereon, if deemed advisable, to the Treasury Board; and
— require reference to the Department of Justice prior to consideration by the committee of items recommended for deletion, except with respect to those departments where, in the opinion of the committee, satisfactory legal review procedures are in effect.

Departments are encouraged to submit items for consideration on a regular basis but they should ensure that items for inclusion in final supplementary estimates are received at least six weeks before the final deadline. Enquiries relating to the deletion of debts may be made to the Secretary of the Committee, Financial Administration Branch, Office of the Comptroller General.

Criteria for consideration by the committee

For deletion of an uncollectable debt under the Deletion of Debts Regulations and consideration by the committee, it must be established that there is a debt and that it is uncollectable. The committee does not have the authority to reduce the amount of a debt. To fall under the authority of the committee, a debt must be considered in whole and must be distinguishable as uncollectable.

Debts not requiring submission

bankrupt debtors. When an order of discharge has been granted to both the trustee and the bankrupt, the account may be deleted by the department on the basis of the order of discharge, without reference to the deletion of debt procedure. However, debts from bankrupt corporations have to be deleted through the normal deletion of debt procedures, since, according to the *Bankruptcy Act*, a corporation may not apply for a discharge unless it has fully satisfied the claim of its creditors.

compromise settlements. When a compromise settlement of a debt is arranged with the concurrence of the Department of Justice, the original debt is automatically expunged and replaced by the amount of the agreed settlement as described under section 6 of this chapter.

debts between departments. The deletion of debt procedure cannot be applied to debts between departments. Either the receivable can be substantiated or has been acknowledged and thus must be paid, or it cannot be substantiated and therefore should be reversed.

Submissions for Deletion

Forms

The standard form of submissions should be completed and forwarded to the Submission Control Unit, Treasury Board Secretariat, with the usual number of copies. Suggested formats are illustrated in the *Treasury Board Submissions Manual.*

Categories of debt

Submissions to the Treasury Board for the deletion of uncollectable debts are normally classified into one or more of the following categories:

— debtors who have died leaving no known estate;
— debtors who cannot be located;
— debtors who are indigent;
— debtors not resident in Canada, where there are no apparent means of collection and there is no indication that the debtor has family or business ties that might encourage him to return to Canada;
— debts where, in the view of the creditor department, further expense to collect is not justified in relation to the amount of the debt and the possibility of collection;
— debts where the Department of Justice has indicated that the amount involved does not warrant the prospective costs of action to collect;
— debts where liability has not been admitted by the debtor and where the success of proceedings to collect is unlikely;

- debts where the existence of an enforceable debt due the Crown cannot be readily established, e.g. where records have been lost or destroyed so that the department is unable to prove receipt of services by the debtor; and
- debts where a corporation is inoperative and is without assets.

Signing authority on submissions

Signing authority under section 4 of the Deletion of Debts Regulations is the minister or his officially authorized delegate. However, if a debt exceeds $5,000, the signing authority is the minister of the department. A complete discussion of signing authority for submissions is contained in *Treasury Board Submissions Manual*, Chapter II.

Supporting data

The following information is required as part of the submission where it is relevant:

- category or categories under which deletion is being requested;
- specific circumstances, including dates, under which the debt arose and the way in which the debtor's liability was established;
- collection actions taken and their results;
- details of legal action taken and legal opinions sought;
- financial status of the debtor;
- whether set-off under section 95(1) of the *Financial Administration Act* is feasible;
- whether corrective action can be taken or has been taken to prevent recurrence of a similar failure of collection action;
- the terms, rate, and amount of interest included in the total of the debt and the date to which it is calculated; and
- name, title, and telephone number of a departmental contact.

Deletion on Grounds of Expediency

It is a fundamental principle that every possible effort must be made to collect in full every debt due the Crown. Thus the powers granted by the Deletion of Debts Regulations are to be applied primarily to the deletion of debts that have proved uncollectable.

There are circumstances, however, under which money is legally due to the Crown but because of the circumstances that led to the creation of the debt, the Crown is prepared to forego collection, even though the debtor is capable of paying. Such cases would normally arise when the following three conditions are met:

- the debt arose as a result of an administrative error made by a public servant in the process of making payment or conferring a benefit to the debtor;
- the debtor was not advised of the debt within a reasonable period of time; and/or
- to demand payment at such a late date would be unfair or would cause hardship to the debtor.

Departmental officers are expected to use the utmost discretion in recommending such cases to their minister or to Treasury Board for deletion on grounds of expediency.

Deletion of Debts Recorded in the Statement of Assets and Liabilities of Canada

On the Statement of Assets and Liabilities of Canada a debt may appear either individually or as part of an item appearing in a schedule; for example, a receivable of a revolving fund forms part of the balance recorded for that fund. For these debts, in addition to formal deletion, further action is required to reimburse the relevant account by a charge to a departmental budgetary appropriation.

A combined submission may be presented for authority to delete the debt from the accounts and for authority to charge the amount of the debt to a specific budgetary appropriation. Once the committee has recommended deletion of the debt, it will forward the submission to the Treasury Board with a recommendation for approval to include the debt in supplementary estimates.

Status of Deleted Debts

Although debts may be deemed to be uncollectable and may therefore be deleted, it does not follow that any debt is permanently cancelled. Authority to delete a debt is simply permission to cease active collection action and to delete the account from active accounts receivable. If information is received indicating that there are prospects of recovering the obligation, or any portion of it, collection action must be resumed, since the account is still a debt due the Crown. Reactivated accounts do not require an additional submission for deletion to cease further collection action.

Adjustment of Accounts Receivable

When authority has been received to cease collection action over a debt, this debt will be transferred from the active to an inactive grouping of accounts receivable, where it will remain as part of the control account until such time as collection action is resumed or the period of limitation extinguishes the claim by the Crown. Departments must retain proper documentation in this regard.

Reporting in the *Public Accounts*

All debts deleted from the accounts under the Deletion of Debts Regulations are required by section 18(2) of the *Financial Administration Act* to be reported in the *Public Accounts* of the fiscal year in which they were deleted. Each department or agency is responsible for ensuring that its deletions are reported as required by the Receiver General's annual instructions.

Chapter 11 to follow at a later date.

Chapter 12
Financial Audit and Evaluation

1. Directives and Guidelines

Directives

- Departments shall have an independent, systematic appraisal activity that examines the financial control framework, evaluates its adequacy, and reviews the organization's performance in relation to this framework for the purpose of advising management as to the effectiveness and efficiency of the financial function.

- The scope of internal financial audit shall encompass all policies, systems, and activities that safeguard funds and other public property; ensure compliance with legislative, central agency, and departmental authorities; and provide financial information for departmental management decision-making and higher levels of authority.

- Each major component of the financial function shall be examined within a three-year period.

- The head of the internal audit group shall report to the deputy head or to another senior executive officer who reports directly to the deputy head.

- The deputy head shall approve an audit policy that specifies the authority of the audit group, outlines the scope and frequency of audit, and authorizes access to all departmental information necessary for the fulfilment of its mandate.

- A long-term plan of the activities of the audit group shall be prepared and documented to ensure that the departmental policy on internal financial audit is met efficiently and effectively.

- An annual schedule of planned audit assignments shall be prepared and submitted to the deputy head for approval.

- A written report shall be issued to appropriate officials of the department or agency at the conclusion of every audit assignment. The report must be timely, accurate, clearly stated, complete yet concise, and must recommend corrective action when appropriate.

- A report shall be submitted to the deputy head at least annually on audit coverage, major findings, significant unresolved recommendations, and any other matters requiring the deputy head's attention.

Guidelines

- The internal audit committee should be composed of senior executive officers having sufficient rank and authority to ensure that adequate action is taken on audit findings and recommendations.

- All internal audit groups, both financial and non-financial, should be integrated to eliminate overlapping and duplication of work and to contribute to the effectiveness of independent appraisal within the department.

- There should be a written agreement with each audit agent that specifies audit objectives, audit scope, reporting relationships, the authority of the auditors, and the rights of the department to examine audit documentation.

- Members of the internal audit group should execute each aspect of assigned audit work in a manner which is, and is perceived to be, objective.

- The internal audit group should be of sufficient size and possess the skills necessary to meet the *Standards for Internal Financial Audit in Departments and Agencies of the Government of Canada*.

- The internal audit group and the individual auditor should have a common obligation to develop and maintain professional skills through training courses, on-the-job training, personal self-improvement, and a formal program of annual appraisals.

- Every audit assignment should be properly planned.

- Sufficient review, evaluation, and verification of the financial policies, systems and activities should be carried out in order to determine whether each major component of the financial function is effective and efficient.

- It is the responsibility of each auditor to exercise due care in the performance of the audit.

- Sufficient, valid, and relevant evidence should be documented to support the content of audit reports.

- Staff engaged in all phases of an audit assignment should be subject to adequate supervision.

- All audit work should be subject to a properly planned and documented review process conducted by the appropriate level of qualified supervisory staff.

- Audit findings and recommendations should be discussed with relevant officials prior to issuing the report and their comments included in the report, as appropriate.

- The internal financial audit group should follow up the implementation of audit recommendations and report inadequate action.

2. Role of Internal Financial Audit

The departments and agencies of the Government of Canada are entrusted with enormous resources and the authority to employ them. Parliamentary democracy demands that the public service render a full accounting of its activities in administering this trust. This accountability process must be concerned not only with the purposes for which the resources were provided but with the manner in which they are applied.

The rapid growth of government expenditures and the increased complexity of government operations have resulted in an ever-lengthening chain of delegated administrative and operating authority. This process of delegating authority to lower levels does not diminish in any way the responsibility of the delegators. In order to ensure that their responsibilities are being adequately discharged in these circumstances, managers must have a means of influencing and monitoring performance in each of the delegated areas. To this end, they must establish within their jurisdictions adequate systems of control.

Control can be described as a complex series of continuous and interrelated activities which are designed to direct and monitor the affairs of an organization. There are three basic phases to this process: the planning phase, the monitoring phase, and the corrective action phase.

The planning phase is a precondition to effective control and establishes what is to be done, how and when it is to be done, who is to do it, and what is to be regarded as satisfactory performance. It includes a combination of measures, such as the establishment of objectives, priorities, resource requirements, policies, procedures, organization structures, budgets, and standards of performance. These measures are established by those with requisite authority and together establish a framework for controlling the organization.

In the monitoring phase, actual performance is observed and compared with the planned framework for control. Effective monitoring is dependent on the flow of timely, accurate, concise, and relevant information to managers in such form that matters requiring attention can be easily discerned and acted upon.

During the corrective-action phase, measures are taken to solve problems indicated by deviations from the framework and to make revisions to the framework based on analyses of performance.

It is important that the control framework be adhered to, be as complete as necessary, and remain relevant in the never-ending pattern of change and growth in the federal government. Thus the control framework established by an organization must be periodically reviewed and verified.

Without such verification there may be no basis for control, and frequently no control. Financial control is of the utmost importance in the federal government because of the enormous financial resources it controls and the trustee nature of public funds. The objectives of financial control are to ensure the utilization of resources in compliance with legislative or other authorities; to protect funds and other public property from losses due to fraud, mismanagement, or inefficiency; to provide data which will assist managers in ensuring that what is planned is accomplished; and to provide for full and accurate disclosure of results to a higher level of authority.

Two fundamental aspects to an internal audit can therefore be identified. The first is to review, evaluate, and report on the adequacy of the predetermined financial control framework. The second is to examine and evaluate performance in relation to this predetermined framework and to report the extent of compliance to management. Although internal audit is an integral part of the management process, it is independent of the day-to-day operations of the systems of internal control. The establishment and operation of a system of internal control, including internal check, is the responsibility of management, not internal audit. In its "Statement of Responsibilities", the Institute of Internal Auditors describes this role as ". . . an independent appraisal activity

within an organization for the review of operations as a service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls."

The Royal Commission on Government Organization (Glassco) reviewed the status and potential for internal audit. The commissioners offered the following advice:

> "The use of internal auditing is an important part of effective management control in industry. Control over accounting records and other related financial aspects of a business may be possible by an elaborate process of checking and re-checking all transactions. While this might be effective, the cost would be prohibitive. A better procedure is to make use of good internal control systems and verification by test audits conducted by competent internal auditors. This provides maximum control at minimum costs."

Following the recommendations of the Glassco Commission in 1962, the *Financial Administration Act* was amended to allocate financial administrative responsibility in the public service to two basic levels of management. First, the Treasury Board was given overall responsibility for safeguarding the collective interests of the government in the field of financial administration. Secondly, departments and agencies were delegated primary responsibility for accurate reporting, for safe keeping of assets and, generally, for the efficient and effective utilization of resources.

The gradual implementation of a decentralized management structure since the publication of the commission's report, and the concurrent growth in government revenue and expenditures, made it increasingly difficult for management to ensure that financial control systems were functioning adequately. Independent, objective, and factual data are needed to assess the adequacy of the design and performance of financial control systems.

3. Scope and Frequency

The purpose of this section is to set standards concerning the scope and frequency of internal financial audit in departments and agencies of the Government of Canada. The previous section states that the purpose of internal financial audit is to advise management on the effectiveness and efficiency of the financial function. In order to appraise the financial function the audit group must have the authority to examine the entire process of financial control. In addition, examinations must be carried out frequently enough so that the advice being provided to management is current and relevant.

Audit Scope

The scope of an audit should be defined in functional, rather than organizational, terms. That is, in terms of the policies, systems, and activities that comprise the department's total financial function. This section identifies many of the components of the financial function to be included within the scope of internal financial audit groups in the Government of Canada. Because of the extensive range of government operations, each department must determine the precise scope of audit according to its own needs. This section sets out only the minimum required scope.

Section 2, on the role of internal financial audit, describes the two fundamental aspects. The first is to identify, review, evaluate, and report on the adequacy of the predetermined financial control framework. The second is to examine the activities of the organization, to evaluate them in relation to the established framework, and to report the extent of compliance to management. In the material that follows it is assumed that the scope includes both these essential aspects.

Departmental policies, systems, and activities

The internal audit group will be primarily concerned with the evaluation of the financial policies, systems, and activities established within the department. These must be consistent with the external requirements which are described later in this chapter. It is a fundamental responsibility of the internal audit group to review, evaluate, and report on this framework which includes all departmental policies, systems, and activities that contribute to financial control, accountability, and visibility.

It should be emphasized that the scope of internal financial audit is not restricted to the policies, systems, or activities administered by any particular group or area within the department. It applies equally to the financial controls in any administrative or operational system. In this way, the audit group can assist management in meeting the objectives of financial control: to ensure the use of resources in compliance with legislative or other authorities; to protect funds and other public property from losses due to fraud, mismanagement, or inefficiency; to provide data which will assist managers in ensuring that what is planned is accomplished; and to provide for full and accurate disclosure of results to a higher level of authority.

This guide delineates policy concerning the eight aspects of any system of financial administration which frequently form the basic major components of the departmental financial function:

— management of the financial function;
— classification of accounts;
— budget preparation;
— budgetary control;
— departmental financial reporting;

— financial systems and controls;
— accounting and control of expenditures; and
— accounting and control of revenue and accounts receivable.

Other major components include the financial controls in any operational or administrative system or program, whether they are manual, mechanical, or electronic in nature. In departments where there may be some question about which of these components is within the scope of financial audit, it should be specified in the policy.

The need for objectivity prevents the audit group from participating in the design or implementation of new financial systems or policies. However, this should not preclude the audit group from reviewing design proposals or offering constructive advice concerning the adequacy of controls, the efficiency of the system, or other relevant aspects.

Departments should carefully define the responsibility of the audit group for conducting conversion audits. A "conversion" is a significant change in the methods and detailed procedures for processing transactions whether manual systems, electronic data processing systems, or both are involved. Such changes may include system changes, hardware installation changes, or system software changes.

Such conversions have two major impacts on the audit. Firstly, the accuracy and reliability of the accounting records may be impaired if the actual change-over to the new system is not undertaken carefully. Secondly, the control framework will be altered; this may impair its future effectiveness.

The alteration of the control framework implicit in the conversion of any system requires that the auditor participate in a review and evaluation of the proposed controls prior to conversion. This participation should be sufficiently early in the development of the system that the auditor's comments can be acted upon so as to avoid costly adjustments to the system after implementation. This approach is particularly significant if the system being designed is large and complex, such as would normally occur with many EDP applications. If the auditors steadfastly restrict themselves to a post-audit program they will contribute to inefficiency and jeopardize the positive aspects of their role.

Legislative authorities

The legislative elements of a government-wide financial control framework include statutes, regulations, and orders in council which pertain directly or indirectly to financial control. Paramount among these are the *Financial Administration Act* and the regulations pursuant to it, such as the Account Verification and Payment Requisition Regulations, the Cheque Issue Regulations, and the Deletion of Debts Regulations. Many departments administer acts which have substantial financial administrative implications, such as the *Unemployment Insurance Act* or the *Regional Development Incentives Act*. Examination of departmental policies, systems, and activities for compliance with legislative authorities in the financial area is a fundamental responsibility of the audit group.

The internal financial audit group must be thoroughly familiar with all the foregoing legislation. It should also evaluate the auditability of the financial aspects of any legislation, whether existing or proposed, for which the parent department is responsible. If any requirements of such legislation are, or will be, difficult to carry out, the group can play a vital role by pointing out or correcting the deficiencies. This is best done by giving constructive advice to senior management and to the relevant legislative planning groups in the department. The group can play a similar role with respect to important agreements and contracts made between the department and outside agencies so that the financial portions of such agreements can be more easily audited later.

In some instances, legislation or regulations affect a department although the responsibility for their evaluation and maintenance lies outside that department. The *Financial Administration Act* is the chief example of this type of legislation. Although the internal audit group has no direct responsibility for its evaluation, the views of the department concerning the effectiveness of the *Financial Administration Act* and regulations should be communicated to the Treasury Board so that they can be considered during periodic reviews of the legislation. The internal audit group should be an important source of information and opinion in formulating the department's views.

Central agency policies

The legislative elements of the framework delegate certain areas of financial authority to Treasury Board and the Receiver General for Canada. Within their areas of jurisdiction, they have developed an extensive amount of policy which is communicated to departments in a variety of ways. Examination of departmental policies, systems, and activities for compliance with central agency policies in the financial area is a fundamental responsibility of the internal financial audit group.

Treasury Board issues many policies, some of which are enforced through departmental financial administrative systems. For example, this guide is the chief medium for communicating policy in the area of financial administration. The Administrative Policy Branch maintains policies on such matters as travel, accommodation, electronic data processing, relocation, and hospitality. The Personnel Policy Branch administers policies having financial implications in the area of pay systems which should normally come within the mandate of the internal audit group. The Program Branch requires financial information from departments throughout the resource allocation process.

As with legislative elements, the departmental audit group has no direct responsibility for evaluating the effectiveness of these central agency policies. However, the group should, in the course of its audit work, be able to identify circumstances where there appear to be weaknesses in policies. This information should be systematically conveyed to the appropriate departmental officials for consideration in determining the department's position.

Frequency of Audit

Discussions on the frequency of audit usually focused on a department's organizational components, such as regions, branches or responsibility centres, in spite of the fact that organizational components with these same generic descriptions may vary greatly in terms of size, systems, and financial responsibilities. This results, in part, from the 1973 Treasury Board guideline requiring that "financial audits should test the system of financial administration annually, covering each responsibility centre at least once every three years."

Experience over past years has shown that the definition of frequency of audit solely in terms of responsibility centres has tended to result in certain of them being given clearly unwarranted equal priority. To give equal priority to all centres may force the audit group to omit or delay examination of areas that demand more immediate attention, in order to meet the requirement to audit all responsibility centres within a specified time.

There is a need for an alternative method of regulating the frequency of audit. The previous section discussed the establishment of scope based on components of the financial function. The audit group should be able to satisfy itself about the adequacy of each major component at least every three years. Because audit is a continuous process, a reasonable portion of the total scope should be completed each year. Certain of these major

components may require partial or comprehensive reviews each year, others less frequently. No major component should be left without audit for longer than three years.

Section 7, on planning and scheduling, develops a method of long-range audit planning which includes the identification of manageable audit units. The planning process, using a variety of criteria, will determine which audit units must be examined in order to provide adequate coverage of each component. This process may determine that an audit of every unit is not necessary during a three-year cycle. On the other hand certain units may require examination more than once during the cycle. However, it is imperative that this determination result from a logical, thorough, and well-documented planning process.

4. Organization and Relationships

Organization for Audit

Section 2, on the role of internal financial audit, describes this as an independent appraisal activity for the purpose of advising management as to effectiveness and efficiency of the financial function. Because it is a service to an organization's management group and departments have primary responsibility for establishing and maintaining an efficient and effective financial function, responsibility for internal financial audit was allocated to departments. Against this background of responsibility for financial administration, Treasury Board, in 1973, made it mandatory that all departments and agencies within its jurisdiction have financial audits performed.

Rather than discouraging flexibility by establishing rigid standards, this section is intended to encourage departments to organize in such a manner that their differing requirements can be accommodated. This must be done without impairment of the independence (and hence the effectiveness) of the audit group. It is essential that the organizational independence of the financial audit group be assured, notwithstanding the need to accommodate varying departmental requirements. It is recognized that a number of factors will be employed in determining the reporting level of the head of the audit group. In this respect Treasury Board encourages a direct reporting relationship to the deputy head, but factors such as the deputy's span of control or approach to management, or the size and nature of the department, may make this impracticable.

If the head of the audit group does not report to the deputy head, the reporting level should be no more than one step removed. In many departments the head of the audit group reports to the senior financial officer, which is not ideal because the senior financial officer is responsible for most or all of the financial function. However, this relationship may be preferable to reporting to another senior executive who has no experience or knowledge in the financial area. Some departments have a senior assistant deputy head with overall management responsibilities, a position which may provide an alternative reporting relationship.

The internal financial audit group should not be subdivided, with separate groups reporting to program managers. There are several reasons for this. The deputy head alone is responsible for the overall systems of financial administration. If there are several groups, it is difficult to fix responsibility for the audit of department-wide components of the financial function. There is also more likely to be duplication of effort in areas such as professional development, administration, staffing, and research.

In summary, flexibility can be maintained by observing the following:

- the head of the internal financial audit group reports, where practicable, to the deputy head of the department;
- in all other circumstances, the head of the internal audit group reports to a senior executive officer who reports directly to the deputy head;
- the financial audit group is not subdivided, with separate groups reporting to program managers; and
- the group always, irrespective of the organizational relationships, conforms to the standards concerning the reporting of findings to the deputy head.

Internal audit committee

In the private sector, the use of an audit committee of the board of directors to evaluate the accuracy, objectivity, and completeness of a company's financial disclosure has become common practice. Most corporate

audit committees work very closely with the internal auditors. Departments which have a board of directors or the equivalent should consider establishing an audit committee.

Generally, government departments do not have a body overseeing management activity that is comparable to a board of directors. Because of this and other fundamental differences in structure and purpose, the private-sector concept of an audit committee is not readily transferable to government departments. An audit committee of senior executives can be a good organizational device for the review of financial audit reports and the promotion of interest in the establishment and maintenance of adequate systems of internal control. The committee can also serve as a valuable source of advice, direction, and information to the audit head.

At the discretion of the deputy head, an audit committee may be established in a department. It can be a distinct committee or simply the departmental management committee which sits periodically as an audit committee. Any relationship between the committee and the financial audit group should supplement, not replace, the relationship between the group and the deputy head specified in section 9, on audit reports.

Senior officers, with the rank and authority necessary to ensure adequate consideration of and action on the audit findings and recommendations, should form the committee. The committee should be chaired, if practicable, by the deputy head. The senior financial officer should always be a member, but should not be the chairman. The head of the audit group should make reports to the committee, act as an adviser, and provide staff support, but should not be a member.

Responsibilities assigned to such a committee could include reviewing:

- financial audit reports or summaries of these reports and advising on action to be taken;
- implementation of recommendations included in the financial audit reports;
- long-term plans of the financial audit group;
- the annual schedule of the financial audit group;
- the auditability of major changes in the financial function; and
- reports from the Office of the Auditor General or Treasury Board and implementation of corrective action.

Relationships

The relationships between the internal financial audit group and other groups or individuals, both within and outside the auditor's department, are discussed below. Some relationships are dealt with more appropriately in other sections of this chapter. In such cases, only essential aspects are repeated. In other cases, a more detailed discussion is presented.

The auditee

The establishment of good working relationships with all parties with which the audit group comes in contact in the department is essential to the conduct of effective and efficient audits. The auditor's most common contacts will be with departmental managers responsible for activities subject to audit, and with financial managers who carry functional or direct responsibility for areas subject to audit.

Good relationships can be developed with financial and operational staff if the auditors are constructive and fair in dealing with them. Although it is difficult to determine what is reasonable in all circumstances, it is possible to provide some examples of both good and bad audit practices. The audit group must ensure that departmental staff members at all levels are aware of its purpose and role, the extent of its authority and

responsibility, and the audit approach, as they are expressed in its formal mandate. Individual auditors must receive advice and instruction in how to deal with auditees during the course of audits. Although the auditors have right of access to information, they should exercise it with prudence. The auditee's desire for confidentiality of information should be respected. Auditors should strive to fulfil the role set out in their mandate, avoiding the reputation of departmental police. Nor should audit staff create the impression that their purpose is to conduct personnel evaluations of individual staff members.

The reporting process is also vital to the establishment of sound audit/management relations. This subject is discussed in detail in section 9, on reporting, but it is important to emphasize that the immediate manager of a unit being reviewed should be regularly informed of major findings. The contents of reports should be thoroughly reviewed with managers before release. Although a manager may not always agree with the content of an audit report, it should never come as a surprise.

Senior financial officer

The auditors' relationship with the senior financial officer can be vital to the success of the audit. The senior financial officer should be consulted during the planning and scheduling exercise. As the person responsible to the deputy head for the effectiveness and efficiency of the financial function, the senior financial officer should be aware of the scope and timing of audit activities.

When audit findings indicate a department-wide problem, they should be discussed with the senior financial officer or the senior full-time financial officer. The senior financial officer should be provided with copies of all final reports.

Other evaluation groups

Groups such as operational audit or management review play a role and employ techniques that are similar to financial audit. In order to avoid duplication of effort, overlapping responsibilities, and conflicting schedules, the activities of such groups should be integrated with internal financial audit. This need for close cooperation has been recognized in Treasury Board policy since 1973.

Throughout the government there are other groups performing a variety of review functions. Some of these use techniques, and have specific objectives, markedly different from those of internal audit. This type of group is rarely integrated with internal financial audit.

Whatever the form of organization, overlapping and duplication of work by independent review and appraisal groups are to be avoided. If there are groups organized separately, clear terms of reference should be issued for each, and the heads of the groups should coordinate their annual schedules so that overlapping of work and interference with line operations can be kept to a minimum. There should also be a maximum interchange of information between the groups, including provision of audit reports whenever possible.

Treasury Board

Treasury Board has established a financial administration evaluation program to help fulfil its government-wide responsibilities. This program (now carried out by the Office of the Comptroller General) was never intended to be an audit of departmental financial administration. Rather, it relies heavily on internal audit work

and on departmental self-evaluations. In this way, the establishment of a large evaluation staff based in the Office of the Comptroller General can be avoided.

The effectiveness of a supporting system such as financial administration cannot be determined in isolation from the operations of a department; reviews are therefore not limited to the organizations providing financial services and financial audit. Nevertheless, these organizations are of primary interest because they are expected to play a leading and coordinating role in departmental financial administration. Upon completion of each review, an evaluation report is prepared for the deputy head of the department, copies of which are also released to appropriate officials of the Treasury Board Secretariat and the Office of the Comptroller General.

The evaluation teams avoid duplicating work performed by departmental financial staff and financial audit groups wherever possible. The team's approach is to review systems documentation prepared by financial staff and documentation prepared by financial auditors. If the audit work is satisfactory, the evaluation is performed in a way that supplements such work done within the department. Making one audit serve the requirements of various management levels requires that audits be performed according to a common set of standards. This is one of the prime goals in preparing this document.

An essential aspect of this process will be the assessment of the internal financial audit function in each department, using the standards in this guide as a basis of judgement. This assessment is intended to be an in-depth evaluation of all aspects of the function, including an examination of plans, schedules, audit programs, permanent files, audit working papers, reports, and other relevant documentation.

In addition to this assessment process, the Office of the Comptroller General has established other mechanisms for providing leadership to the internal audit community. An advisory service is offered to audit groups to help resolve problems in such areas as organization, planning, and reporting. In cooperation with the Public Service Commission, training programs are prepared and presented and officers are selected to fill senior internal financial audit positions. An Interdepartmental Advisory Committee on Internal Financial Audit has been established and is involved in projects which will have an impact on all audit groups.

Office of the Auditor General of Canada

Internal financial audit groups have extensive dealings with representatives of the Office of the Auditor General of Canada. The internal financial audit function is subject to review by the Office of the Auditor General in order to:

— assess compliance with government-wide policies on financial audit;
— evaluate the effectiveness of the audit group as an essential facet of a department's systems of financial control; and
— assist in planning and conducting its own audits.

The *Auditor General Act*, section 13, permits the Auditor General access to any records deemed necessary to fulfil that officer's responsibilities. Consequently, all internal audit documentation, including reports and working papers, may be made available to representatives of the Auditor General. Internal audit groups should exchange, to the extent practicable, schedules and audit information with the Office of the Auditor General in order to minimize duplication of effort, disruption of departmental staff, and audit costs on a government-wide basis. At the same time, the internal auditors must remember that they are part of the department's management process and this role must remain their highest priority.

Audit agents

Many departments employ agents to conduct some or all of their internal financial audit. In this context, the term *agent* denotes an individual or an organization hired under contract by a department to conduct audits of the department's financial function. The Audit Services Bureau of the Department of Supply and Services is a major agent of this type. The employment of agents to conduct audits of recipients of contributions, cost-sharing payments, or government suppliers is not covered in this section.

Departments using agents for internal audit purposes interface with these agents in several different ways. Some departments engage agents to conduct a full internal financial audit; some supplement the work of an in-house audit group; other departments have one or more staff members, who, on a full-time basis, coordinate, analyse, and initiate corrective action based on agents' reports. These are all acceptable forms of organization.

Although actual audit work may be assigned to agents, the responsibility for the effectiveness of the audit function remains with the department; thus the department should specifically ensure that the standards set out in this guide are met. The department should have a written agreement with the agent which should clearly specify:

— the authority and responsibilities of the auditor;
— the scope of the audit work;
— the reporting relationships; and
— the department's right to approve plans and schedules.

It should also allow the department sufficient access to the audit documentation to be satisfied that the standards are maintained and to obtain specific detail that supports the observations and recommendations made.

5. Audit Independence

Independence is a concept that is extremely important to effective internal financial audit. A certain degree of independence is essential to permit the audit group to provide complete and impartial observations, comments, and recommendations. In the context of internal financial audit, independence is the property of the relationship between the auditor and the auditee that ensures that the auditor's findings and reports will be influenced only by the evidence discovered and assembled in accordance with rules and principles of professional discipline.

However, if an internal audit group is totally independent of the organization it is to serve, it will find it difficult to maintain a current knowledge of departmental operations and to gain the respect and confidence of management. The group may have achieved independent status but its usefulness to the management of the organization may be severely reduced. Thus it is important that the internal audit group have the support of management and be considered part of the organization's management team—even though the audit work may be performed by an outside audit agency.

A number of factors influence the degree of independence of an audit group in an organization. Section 4 of this chapter sets out certain standards concerning the place of internal audit in a department's organizational scheme and how the group relates to external parties. Section 3 discusses the importance of having the authority to examine the entire process of financial control and to determine the timing and frequency of such examination. Section 9 states that the head of the audit group should have the right to distribute his reports to any management level; this right also contributes to independence. Although the standards for organization, relationships, scope, frequency, and reporting play a vital role in establishing independence, several other factors come to bear.

An audit group cannot be called upon to review or assess policies, systems, or activities which it has developed or implemented and maintain its independence. It should not, therefore, be directly involved in these functions. Nor should the group have responsibility for any operational or accounting functions. This does not imply that the audit group cannot offer advice and criticize systems, when necessary, before implementation. In fact, this should be an important part of the audit effort, particularly where systems are complex and therefore expensive to design and implement. Section 3 describes this responsibility in more detail.

The independence of the audit group is also partly determined by the personal objectivity of its members. Objectivity is essential for an auditor to be effective. For the financial auditor, objectivity is the ability to examine facts and situations in an impartial manner so as to form conclusions and make recommendations based solely on the evidence examined. To gain acceptance and support for the financial audit function, it is particularly important that the auditor should not only be objective, but that this objectivity can be readily perceived. This means that each auditor must be free from the control or influence of the users of audit services and should not have, nor appear to have, any bias arising from association with the organization, activity, or individuals subject to examination.

In order to establish a sufficient degree of independence, the authority of the group and its responsibilities must be clearly enunciated in a departmental audit policy. This policy should cover all the subject areas discussed above. It is essential that it be communicated to all members of the audit staff, all financial officers and all other personnel who come into contact with internal auditors. The method employed to do so is left to departmental discretion. A typical approach would be to incorporate the policy in the financial, administrative, or corporate policy manual.

This document should specify that the auditors are entitled to access to all departmental information, records, documents, and reports that they deem to be related to the fulfilment of their responsibilities. They

should also have reasonable access to all departmental staff in order to obtain information and explanations relating to their examinations.

In summary, the audit policy should be

- formal: written, and approved by the deputy head;
- promulgated: effectively communicated to all appropriate departmental personnel;
- specific: clearly identifying the authority being granted (scope, frequency, and access to information); and
- comprehensive: granting sufficient authority to the audit group for it to play its intended role.

6. Audit Staff

The importance of internal financial audit and the complexity of its responsibilities are discussed in detail in other sections of this chapter. Section 2, on the role of internal financial audit, emphasizes the significant responsibility of internal financial audit in the management process and the high degree of reliance which senior management places on the internal auditors' appraisal of complex systems of financial administration.

Other sections describe the broad scope of audit, the diversity and depth of technical skills required, the high standards of care and proficiency, and the need for highly developed communications skills.

In view of these important responsibilities and required skills, great care and attention must be given to the selection and training of adequate numbers of qualified and experienced financial audit staff. This is particularly important, if the internal financial audit organization is to fulfil its mandate and meet the high expectations of management.

The purpose of this section is to outline the standards by which each internal financial audit organization should be staffed, and its personnel trained and appraised.

Group Characteristics

No specific standard as to size and composition of the financial audit organization is possible, because this will vary from department to department and will be affected by a number of interrelated factors, including:

— the nature of the department or agency served by the internal financial audit organization (e.g. the extent of decentralization in the department, the complexity of programs, and the degree of public sensitivity);
— the size of the department or agency, i.e. the number of employees, total revenues and expenditures, and assets employed;
— the adequacy of the systems of internal control; and
— the complexity of the department's financial administration system.

Section 7, on planning, describes the need to identify and subdivide the total responsibility for an audit into the tasks to be performed (or manageable audit units) in order to meet the objectives as to scope, frequency, and depth in the audits of the financial control framework and activities of the department or agency. As part of this planning process the head of the audit organization must calculate the human resources required to fulfil the mandate, taking into consideration all of the above factors. The staff requirements should be fully documented and directly related to the fulfilment of the total audit responsibility in the long-range plan. The staffing plan should indicate the resources to be obtained under contract from outside agencies. The services of an outside audit agency should be obtained at any time when it is considered more effective or efficient to do so. The standard for the use of audit agents is discussed in detail in section 4, on organization and relationships.

The internal audit manager must ensure that audits are conducted by personnel who collectively have the skills necessary for the type of audit that is to be performed. It may therefore be necessary for the financial audit organization to obtain special expertise when carrying out certain audits. Special expertise may be obtained in a number of ways, including hiring temporary staff, by secondment from other specialized areas in government or from an outside agency.

Audit groups often have responsibility for reviewing computer systems, so that acquiring or developing computer audit skills is particularly important. Although all staff should have a basic knowledge of computer

controls and auditability, some audit groups may also require in-house specialist expertise in EDP systems. These individuals may be employed in the use of computer-assisted audit techniques, development of computer audit programs, or special studies. They must possess extensive computer audit experience and in-depth training in audit and EDP systems.

Individual Characteristics

The primary function of internal financial audit is the appraisal of the financial control framework. The audit group should therefore be composed of individuals having the appropriate knowledge and experience in financial management and auditing. Members of the audit group should normally have received the type of specialist training in the fields of accounting and auditing which would qualify them for membership in one of the recognized institutes or associations of professional accountants.

The head of the internal audit organization should have sufficient experience and formal training

— to participate as a member of senior departmental management;
— to advise the deputy head and fellow senior officers as to the effectiveness and efficiency of the financial function and its compliance with departmental, legislative, and central agency requirements; and
— to plan, organize, direct, and control the activities of a professional audit organization.

The degree of knowledge required of individual auditors will depend on the complexity of work assigned. As a minimum, an internal financial auditor should have a thorough knowledge of financial management, accounting theory and practice, financial audit theory and procedures, and a basic knowledge of government organization and financial practices. This does not preclude the employment of less qualified staff as technical support, or an audit trainee working under the supervision of a fully qualified auditor.

In addition to the technical and professional knowledge and skills described above, the individual auditor should have such other important skills and qualities as: communications skills, both oral and written; good working relationships; interpersonal skills (tact, diplomacy, and the ability to adapt to situations); and analytical skills, initiative, and self-motivation. Auditors with supervisory or managerial responsibilities must have demonstrated strong administrative ability.

Development of the Auditor

The increasing complexity of government requires that internal financial auditors develop their professional skills to be fully effective. It is therefore necessary that each audit group have a formal plan for training and development, which will encourage individual initiative and develop the competence that will enable the auditor to undertake his work with confidence and a professional approach. Elements of a training and development plan could include:

— an orientation program for new auditors to give them an understanding of government-wide and departmental policies and procedures for financial administration and internal audit;
— access to up-to-date reference material;
— job enrichment by means of a variety of assignments;
— on-the-job supervision;
— encouragement of individual programs of self-improvement; and
— participation in formal training programs, in-house and external.

A program of employee appraisal is another important factor in achieving a high standard of audit performance and in the development of the auditor. A formal written appraisal, prepared by the audit manager and discussed with the auditor, should be prepared at least annually. The annual appraisal should point out the auditor's strengths and weaknesses in relation to the duties of his position; describe short-term and long-term goals, and progress made in achieving goals since the last appraisal; and identify training needs.

7. Planning and Scheduling

One major task facing the head of an internal financial audit group is planning the coverage. Planning gives the group head a means of ensuring that every component of the audit group's responsibility is considered, and of organizing the work in a manner that will gain the greatest benefits for the department from the resources available. Planning is a prerequisite for directing and controlling audit activities and for measuring the performance of the audit group. It can also help in communicating the activities of the audit group to the deputy head, senior program and financial managers, the Treasury Board, the Office of the Auditor General, and audit staff.

The process can be divided into four phases, which should be systematic, logical, and fully documented and should

- describe the total audit responsibility in terms of manageable audit units;
- evaluate and rank the audit units in order of priority;
- prepare a long-term plan; and
- prepare an annual schedule of the audit work.

Phase I Identify Manageable Audit Units

The audit of the financial function in a department or agency can be a large and complex operation, involving hundreds of organizational units and many thousands of hours of audit work. In order to effectively carry out this sizeable undertaking the audit head must subdivide and describe his total audit responsibility, as set out in the formal audit mandate, in terms of the tasks to be performed—the manageable audit units. The audit units should be established in such a way as to provide a basis for effectively planning, controlling, and executing the audit work. An audit unit is a potential assignment of manageable size, but of such scope and nature that if audited with due care will produce significant and meaningful information for management.

There is no standard model for identifying audit units, nor is it practical to attempt to develop one for application on a government-wide basis, because of the varying nature of departmental financial operations. There are two preconditions:

- there must be an audit mandate, approved by the deputy head, which clearly defines the objectives of the audit organization, stresses its authority, and specifies expected coverage and frequency; and
- the audit organization must have an in-depth understanding of the department's programs, organization, legislation, and financial management and control policies and practices. Where up-to-date knowledge does not already exist within the audit organization, steps should be taken to obtain it through interviewing appropriate officers, and studying pertinent documentation and reports.

When establishing manageable audit units it is important to look at the total audit responsibility from a functional, organizational, and program viewpoint and not merely identify every responsibility centre. In a small highly centralized department or agency the entire financial function may be described as a single manageable audit unit. In a large department the audit unit may be a component of the financial function, a program, an organization, or any portion or combination of these.

The need to visit a specific organization depends upon the manner in which financial responsibilities are assigned and on the location in the department where financial control is exercised.

For example, controls are frequently established at higher levels to monitor and control activities at lower levels in the organization. By concentrating audit effort initially on the higher levels it may be possible to satisfy audit requirements without examining the detailed procedures and transactions at the lower levels. Only where the controls are inadequate at the higher levels would it be necessary to extend the examination to the lower levels.

It is usually extremely difficult to obtain a valid opinion of a financial policy matter, or of a department-wide procedure or practice, by concentrating audit work at the responsibility centre levels. An audit unit established for the review of the adequacy of a major component of the financial function should normally include the headquarters level where the overall responsibility for the financial system rests.

It should be determined if the review of compliance can best be carried out concurrently with the appraisal of the adequacy of the framework or can better be achieved on an organizational basis. A useful planning technique is to set out the components of the financial function and groups of organizational units as a matrix in order to view various alternatives and combinations in designing the audit units.

To ensure that the list of audit units remains relevant, it should be continuously updated as additional knowledge is gained from carrying out audit work and as changes are made to the systems of financial administration.

Phase II Rank Audit Units

Having identified the manageable audit units, the audit head should be able to identify which units are fundamental and necessary in assessing the adequacy of the financial function and which are discretionary. This is particularly important where there are limited resources because it forces the audit manager to focus his attention on those areas where use of the available resources would best achieve the departmental audit objectives.

In ranking the audit units the following criteria should be considered:

size. The size of an audit usually is determined by the revenue generated, the expenditure made, and the assets controlled.

risk of loss. Risk is a function of the extent and reliability of the control system, the vulnerability to loss through fraud and mismanagement, and the liquidity of the assets managed.

special considerations. Some key components of the financial function, such as management of the function and the budgetary process, cannot easily be ranked according to the previous criteria. Nevertheless, evaluation of these aspects is necessary in assessing the adequacy of the financial function.

major changes. These are major changes in systems or organization, the implementation of new systems, the establishment of new organizations, and changes in key personnel.

previous internal financial audits. The date, findings and recommendations of previous audits, as well as the extent of follow-up and corrective action by management, can be used to assess priorities. The discovery of major deficiencies in one unit may necessitate audits of similar units.

work performed by other auditors. The reports and audit plans of the Auditor General, the Comptroller General, the Treasury Board Secretariat, and other evaluation groups should be taken into account.

known desires of senior management. Consideration should be given to management requests for specific audits. The internal auditor must ensure, however, that in meeting these requests, the internal audit function does not become part of line management, nor of the system of internal check.

During the ranking of the audit assignments, the audit manager should seek the advice of senior financial officers and the departmental audit committee. Their suggestions, based on knowledge of the department, and their concerns are invaluable in identifying the audits which can be expected to bring significant results. Such consultation can also be extremely useful in gaining support for the internal audit function in general and the audit assignment in particular. The manageable audit units are then listed in order of decreasing priority. This ranking provides the audit organization with a useful tool in deciding what is to be done and when it is to be done.

Phase III Prepare Long-Term Plan

During this phase, the audit manager plans the activities of the audit organization to best meet the audit mandate, allocating known and planned resources to the ranked units in order to establish a long-range plan of work. The planning period normally is consistent with the frequency of audit established in the mandate. Section 3 of this chapter quotes a Treasury Board requirement for a maximum cycle of three years. The long-range plan should attempt to provide some balance, so that a variety of components of the financial function and organizational units are covered annually.

The plan should be flexible enough to allow for audit requests by management, for special studies demanded by unforeseeable circumstances, and for follow-up reviews on the actions taken on recommendations.

Phase IV Prepare Annual Schedule

During this phase specific assignments to be carried out in the year ahead are scheduled. The schedule provides a basis for directing, controlling, and gaining approval of the activity.

The schedule should define the scope and objectives of each assignment and estimate time and resources. In allocating resources, audit management must ensure that the capabilities of their staff are sufficient to achieve the objectives of the assignment. Provision should be made for professional development, leave, and administrative duties; failure to do this will lead to disruption in the schedule.

The schedule should be developed to ensure that audit effort is effectively coordinated. Audit assignments should be phased so that full use can be made of knowledge gained from completed work, when carrying out subsequent related work.

The operational cycle of the organization to be audited should be taken into consideration in preparing the schedule. In many instances it is important to time the visit so that the auditor may observe an operation or activity as it occurs, as in the case of a pay distribution or inventory verification. Although the auditor must attain his objectives, he should attempt to do so with the least possible disruption of operations.

Whenever possible, audit schedules should be compared with those of the Office of the Auditor General and the Comptroller General's financial evaluation group, in order to prevent overlapping visits and undue interference to the financial operations.

Because the audit schedule communicates the activities to the deputy head, it should be supported by a narrative which relates the schedule to departmental requirements on scope and frequency. Deficiencies in coverage and the reasons for the deficiency should be highlighted so that the deputy head is aware of the risks involved.

8. Performing the Audit

Introduction

The purpose of this section is to establish standards for the performance of internal financial audit assignments. The first four phases of the internal audit process (assignment planning, review, evaluation, and verification) are discussed in this section. The fifth phase, assignment reports, is dealt with in section 9 along with such related topics as summary reports and follow-up procedures. The five phases of the process are presented in the appendix. Proper execution of the first four phases rests on several basic audit concepts: due care, evidence, documentation, materiality, and assignment management.

The internal audit process is suggested as a general approach for carrying out most internal financial audits in the Government of Canada. This section discusses the basic phases, rather than attempting to identify specific methods for the various situations that may be encountered. It does not prescribe detailed audit techniques. The process can be employed irrespective of whether a systems-based, data-based or other approach is used. The difference is one of emphasis between the review and evaluation phases and the verification phase.

The exhibits, which appear in the appendix, present the steps in each phase together with the points which may be considered in carrying out these steps. The considerations listed can be used as set out or can be modified on the basis of the experience and sophistication of the auditor and his knowledge of the auditee's activities.

Internal Audit Process

Phase I Assignment planning

Once the scope and objectives of each audit assignment have been identified, at the annual schedule stage, a specific plan of action should be developed before work begins. The auditor must carry out sufficient research to decide what matters to emphasize and select the appropriate audit approach and techniques. These preliminary decisions may be modified as a result of information obtained during the audit.

The planning phase consists of obtaining and documenting background information on the audit unit, to gain an understanding of its operations, procedures and personnel. The information gathered should include internal information on financial operations and sufficient external information to be able to place the operations in proper perspective.

Recent financial data, estimates, organization charts, audit planning notes, and permanent files can be examined to identify the areas which are likely to be most relevant in the current audit. Discussions should also be held with appropriate officers to identify recent changes in systems, operations, or personnel. Extracts from all legislation, regulations, and policies applicable to the audit unit should be prepared for the working papers, to the extent that they give rise to audit considerations.

At this stage, the auditor should gather information regarding the extent of computerization and determine where the computer fits into the system. An adequate internal audit cannot stop at the point where computer processing begins. The proper audit approach in a computer environment includes a complete consideration of computer control objectives and standards and computer-oriented audit techniques. In particular, the auditor should ascertain the extent and nature of EDP facilities: in-house, off-site, distributed processing systems, or on-line systems.

If the area subject to audit has been previously reviewed by other internal evaluation groups, the Office of the Comptroller General, the Treasury Board Secretariat, the Office of the Auditor General, or the Security Evaluation and Inspection Team of the RCMP, reports may be available which will be useful to the auditor in determining the direction and depth of the examination. These reports may be based on flow-charts, schedules, narratives or other information which the auditor may be able to obtain, to supplement or replace his own documentation of the system. In addition, reports and working papers resulting from previous internal financial audits will be a major source of information during the planning phase.

The information gathered during the planning phase will allow the auditor to determine which policies, systems, and activities warrant examination. Previously identified control weaknesses, the nature of the activities, management concerns, systems changes, and materiality are major factors in these determinations.

This information is also used to select a basic audit approach. Selection of the systems-based approach presumes the existence of a system and is an effective audit approach where the system is reasonably well defined. It is usually the most efficient approach where large volumes of transactions are being processed. But auditors often encounter circumstances that do not lend themselves to this highly structured approach, in which event the auditor would employ other audit approaches such as the data-based approach.

Once the size, nature, and complexity of the audit assignment are established, the skills required in the various parts of the audit assignment can be determined. Audit management can then assign staff with the appropriate skills, to ensure the effective and efficient execution of the assignment. An important result of effective staffing arrangements is a continued increase in the level of competence of all members of the audit team.

To ensure that planning decisions reached during this phase are properly implemented, and to provide useful information to the management of the audit group in formulating planning decisions, a time budget should be developed for each part of the audit assignment.

Finally, decisions regarding objectives, scope, audit approach, time budgets, and assignment of staff should be documented in an assignment memorandum. This should also set out the decisions reached concerning resource requirements, including the use of agents and outside specialist staff, and supervision and review arrangements. The assignment of responsibility for the drafting of the report, and any constraints such as availability of auditee staff, must also be documented. The potential impact of the assignment on future assignments should be recorded. The memorandum is essential to ensure that each staff member understands the objectives of the assignment and the basic approaches to achieving them.

Phase II Review

During the review phase, the auditor gathers information on the policies, systems and activities subject to audit in order to identify the financial control framework. The review phase consists of studying the background information accumulated in the planning phase, observing activities, interviewing personnel involved with the financial operations, and examining departmental documentation and financial reports. The subsequent evaluation and verification phases depend on a thorough and consistent documentation of the data collected. Standard flow-charting techniques combined with, or replaced by, explanatory narratives or checklists can be used to document the control framework.

Upon commencing the review, the auditor should meet the management of the area subject to audit. The purpose of this is to explain such concerns as planned objectives, scope of the assignment, procedures for clearing

and reporting observations, audit timing, and administrative matters. It should be made clear that the amount of planned work may be altered, according to findings made during the course of the assignment.

Where the financial systems are computerized, some control and accounting procedures will operate manually (e.g. authorization and preparation of source documents, visual review of computer output) and some will operate through computer programs (e.g. computer editing of transactions, computer calculations). Overall internal control is generally a function of the way in which these manual and computerized controls and procedures have been coordinated and complement one another. It is essential therefore that the computerized elements of each computer-based system be reviewed and documented as an integral part of the entire application.

The audit should carry out limited verification to ensure that the control framework is operating as documented. This may be done by examining a small number of representative transactions, observing activities, interviews, reviewing evidence of action such as correspondence or approvals, and reviewing and analysing reports. For computerized systems, the limited verification should include regular accounting transactions and master file change transactions. In addition, the tests should cover any associated control information procedures (e.g. batch totals, control logs) and error correction procedures. Subsequent verification will be directed towards the significant deficiencies, major inefficiencies, and essential controls identified in the evaluation phase, so that it is imperative that this limited verification be effective.

Once the actual framework has been documented and the limited verification performed, an investigation should be conducted and recorded with respect to the environment controls which operate outside the system under review and which may compensate for apparent deficiencies. For example, such controls as the participation of management in the financial administration function and systems complementary to the transaction recording and control system (e.g. setting, controlling, and analysing budgets and variances), or the provision for rotation of duties among employees, should be considered.

Phase III Evaluation

In this phase the auditor must evaluate the design of the financial control framework to determine whether it will ensure the utilization of resources in compliance with legislative or other authorities; protect funds and other public property from losses due to fraud, mismanagement, or inefficiency; provide data which will assist managers in ensuring that what is planned is accomplished; and provide for full and accurate disclosure of results to a higher level of authority. The analysis consists of comparing the design of the framework, as documented in the review phase, with a predetermined control model and requires the application of an appreciable amount of expert judgement on the part of the auditor. The use of standard control questionnaires or checklists may assist the auditor in the complete and systematic application of this predetermined model. However, care must be taken because a standardized questionnaire or checklist is by its nature quite general and may require adaptation to specific circumstances.

The result of this evaluation will be the identification of the control deficiencies and inefficiencies in the framework. The deficiencies include control weaknesses, and all failure to comply with the external requirements of Parliament, central agencies, or the department (external requirements may include headquarters directives where the audited unit is a branch of regional office). The auditor should also be alert for other controls which compensate for apparent weaknesses in the area under audit. The effect of these compensating controls, as well as environmental controls, must also be thoroughly evaluated.

It is normally not cost effective to carry out in-depth verification of all controls; the auditor should therefore identify those areas where there is the greatest potential for considerable loss or error. This requires identification

of essential controls, significant weaknesses, and major inefficiencies. Essential controls are those considered by the auditor to be critical to the effective operation of the system. A significant weakness is the absence or ineffective operation of an essential control. All failures to comply with mandatory external requirements are deemed to be significant deficiencies by their nature.

The objectives of auditing are not affected by the introduction of computer processing, but the different control techniques employed must be taken into account by the auditor during his evaluation. In some units the processing stage of the EDP system is located off-site, at the Department of Supply and Services, or at commercial service bureaus or other departments. Except for government-wide EDP systems, the audit group is still responsible for evaluating the adequacy of the entire control framework, whether it is in-house or located in an off-site EDP facility. For government-wide EDP systems operated by central service departments, the departmental internal audit group is responsible for auditing only those portions of the control framework established within its own department. The internal auditors of the service department are responsible for evaluating the remaining portions of the framework.

Phase IV Verification

In this fourth phase the audit is concentrated on the in-depth verification of essential controls, significant deficiencies, and major inefficiencies. Since the evaluation phase concentrated on the design of the control framework, and the review phase provided only limited verification of its operation, the conclusions provided to this point are not final. Further verification is required

— to determine that essential controls are operating as designed and are effective; and
— to substantiate significant deficiencies and major inefficiencies, to assess their effect, and to identify their causes.

Where the verification of essential controls discloses additional significant deficiencies or major inefficiencies, these will be subjected to the same verification as those originally identified in the evaluation phase. In addition to substantiating significant deficiencies and major inefficiencies, the audit program should be designed to determine their effect and cause. This is necessary to demonstrate in the report to management that errors exceeding the materiality limit have occurred or are possible in the future, and to ensure that the causes of the deficiencies are considered when developing recommendations. In some instances the auditor may not be able to demonstrate the seriousness of the weakness with specific errors, but an auditor who remains convinced of the accuracy of an evaluation is obliged to report the deficiency and its potential adverse effect.

The auditor must clearly define the objectives of each verification step prior to developing a comprehensive audit program. These objectives and the nature of the policy, system, or activity under review will determine the verification technique required. The auditor can select from a wide range of techniques in developing the audit program, including transaction testing, personal observation and enquiry, report and data analysis, independent or third-party confirmation or interviews, and comparison and analysis of costs or other data for similar activities. In developing the audit program the auditor should be alert to conditions where statistical sampling or computer-assisted audit techniques can be employed. These techniques can result in more efficient and effective auditing.

Prior to preparing the draft report and recommendations the auditor should verify the audit facts with the auditee.

Phase V   Assignment reporting

This phase is a culmination of the four previous phases and is discussed in detail in section 9.

Basic Concepts

Due care

In executing the procedures discussed in this section, it is assumed that the auditor performing them will have the technical competence and intelligence to perform the specific audit routines, and the personal qualities of professional integrity and objectivity.

In addition to these attributes, and the qualities discussed in section 6 of this chapter, the internal auditor must meet a standard of due care in the performance of an audit. The benchmark for due care is the performance of a reasonably careful, cautious, and competent professional in the same or similar circumstances, although due care is not a guarantee of the best professional performance, infallibility, or absolute assurance.

Evidence

Evidence may be obtained through the direct personal knowledge of the auditor, externally from third parties, internally from the organization under audit, or by comparing evidence obtained from two or more sources for consistency. Various types of evidence may be obtained from such sources as physical verification, documentary evidence, re-performance of transaction routines, actions of the auditee, statements and correspondence from third parties, accounting records, source documents, and statements and representations of the auditee. Furthermore, there are different audit techniques such as observation, confirmation, and enquiry, for obtaining the appropriate type of evidence from the various sources.

When determining the source, type, and method of selecting evidence, the auditor considers the quality and reliability needed for an effective and efficient audit. Direct personal knowledge is normally more reliable than indirect evidence; external evidence is normally more reliable than internal evidence; and documentary evidence is normally more reliable than oral evidence. However, there may be additional costs related to obtaining qualitatively better or more reliable evidence; the auditor considers whether the additional degree of assurance provided is worth the additional time and cost which may be involved in obtaining it.

Documentation

Working-paper files are necessary to provide proper support for the audit report and to facilitate the effective and efficient conduct of the audit. Both objectives require that documentation of all phases of the audit be complete, organized, integrated and, of course, clear and concise. Documentation of the planning phase will be primarily provided by the assignment memorandum. The working papers documenting the review, evaluation, and verification phases of the audit should be referenced from the assignment memorandum to the audit report. Standard filing, indexing, and referencing schemes are necessary to enable audit staff, audit management, and others to easily follow the documentation flow from planning to execution to conclusion.

Audit working papers are of relevance to the audit only, and may contain comments which could be misleading or offensive if taken out of context. Accordingly, the auditor should always exercise discretion when

releasing information contained in the working papers to anyone not involved in the management or performance of the assignment.

Materiality

An important part of the assignment planning phase is the selection of specific areas of the assignment for detailed audit reviews. In making this selection, relative importance, or materiality, is an important factor. In this context, materiality is a relatively simple concept and may only require a determination of the dollar volume of the system and the inherent risk of error. Similarly, during the evaluation phase materiality will be important in assessing essential controls, significant deficiencies, and major inefficiencies.

Materiality is also an important consideration during the verification phase of the audit assignment. No system, even where controls are strong, can be expected to function perfectly. Consequently, for any given system, management (and therefore the internal auditor) must tolerate a certain error frequency or the accumulation of errors up to a certain level. There is a limit of reliability for each system beyond which it would be unreasonable to expect further precision because the cost of additional assurance would be excessive. A definition of a materiality limit might be:

> the aggregate number of errors which, if they had occurred, would be large enough to cause management serious concern as to the continued effectiveness of the financial control system under examination.

The auditor's decision as to the number or frequency of errors that would be the materiality limit should be based on his judgement of the circumstances in each case. Important considerations will include external requirements, the risk of loss, the nature of the transaction, and the volume of the system.

The concept of materiality is an essential and integral part of every audit. It is the standard against which adequacy is judged. The quantification of a materiality limit simply requires approaching materiality in a more formal and rigorous manner. When applied with care and common sense, it can be a useful approach for internal financial auditors in the government.

Assignment management

Staff engaged in all aspects of an audit assignment should receive adequate supervision to ensure that all the standards of audit conduct are maintained and that budgets and deadlines are met. Proper supervision also assists in the professional development and performance appraisal of the members of the audit team. It provides the means whereby each audit can be controlled at the planning, execution, and reporting stages.

To ensure adequate supervision, the organization and implementation of supervisory routines must be carefully considered. The organization of the audit team should be clearly defined, to ensure that the lines of authority and responsibility are understood by each member of the team, and should contribute to the orderly execution of the review process. Larger audit groups may have several levels of management within the group. In smaller groups the head of the group may perform all managerial, supervisory, and review tasks. The responsibilities described below will be allocated by each group according to its own needs and structure. The term *audit management* is employed to denote the whole area of managerial responsibility.

Management will generally supervise and control the technical and administrative activities of the staff and undertake to act as primary contact for the units being audited. While the audit staff will be responsible for the actual execution of the field-work in respect of each audit, they should remain in regular communication with

audit management and discuss changes in plans, the progress of the audit, and any problems encountered of a technical or administrative nature.

A review process is necessary to ensure compliance with the plan, proper documentation, and execution of specific audit procedures in an appropriate and efficient manner. Audit management should complete a detailed review of the audit working papers to evaluate the extent to which the plan achieved its stated results and to ensure that the work has been performed in a manner which will support the report. The review will result in review notes to be cleared prior to concluding the assignment.

In all cases, the head of the audit group should review the report. He will have to satisfy himself that the plan which he initially approved has been implemented, that the audit findings are adequately supported, that all working-paper review notes have been resolved, and that the experience of the current audit has been recorded for planning purposes.

9. Audit Reports

Internal financial audit reports communicate audit findings to management in order to assist them in monitoring the effectiveness and efficiency of the financial function, in improving the control framework, and in ensuring compliance with established policies, plans, and procedures. The report should supply the manager with the information he needs, to take or initiate corrective action on any deficiences reported. In section 2 of this chapter it is stated that effective monitoring of the control process depends on the flow of timely, accurate, concise, and relevant information to managers, set out so that matters requiring attention can be easily seen and acted upon. These same qualities should apply to the audit reporting process.

There are two types of audit reports. The first is the assignment report which is prepared and distributed to various levels of management as the work is performed or following the conclusion of an assignment. The second is the periodic report to the deputy head which summarizes the significant observations and provides a conclusion on the adequacy of financial controls and on the effectiveness and efficiency of the system of financial administration. This periodic report does not preclude the receipt of assignment reports by the deputy head.

Assignment Reports

Contents

Each audit assignment must culminate in a written report. This is necessary to minimize possible misunderstanding of the auditor's observations and recommendations, to provide a record against which corrective action can be measured, and to allow the audit results to be easily communicated to all officials who can benefit from the findings. This is in no way intended to restrict the discussion of the findings or the oral presentation of the results of the audit.

There is no universal model for the audit assignment report, but the following elements are common to all:

1. Scope and objectives

This identifies the organization or financial activity being reported upon. It includes a clear statement of the audit objectives and the scope and depth of the audit and identifies any limitations in scope, particularly where it might otherwise be assumed that audit work took place. The statement may include a comment on the methods followed in conducting the audit and may provide explanatory information on the organization or activity reported upon, to help the reader gain an insight into the areas under examination.

2. Summary of observations and conclusions

A summary of the major observations and conclusions should normally be presented in the report before the detailed audit observations. In this section of the report, the auditor sets down all final conclusions on the adequacy of the various components of the financial function covered by the audit. All conclusions must be clearly identified as such, and indicate the basis upon which they were formed.

Summarizing findings in this manner is useful in that it highlights the deficiencies that require corrective action and attracts the attention of the busy executive. However, the auditor must be careful when reporting the summarized data or conclusions not to distort the meaning or significance of the findings.

3. Audit observations and recommendations

The auditor reports specific findings, makes recommendations for corrective action, and includes comments on the extent and effectiveness of corrective action taken on observations and recommendations in preceding audit reports. The auditor should convey all findings in an objective and informed manner which will motivate management to act upon the recommendations. The report should be constructive in tone and should concentrate on achieving future improvement rather than emphasizing past errors.

The auditor must conduct sufficient verification and analysis of the deficient area during the field-work in order to ensure the identification of a valid problem and to determine the various causal factors. This is the starting point for an audit observation. In the report, the auditor must set out the problem fairly, clearly, and concisely and provide pertinent facts so that the reader can understand the issue and its significance.

The report should state the causes of the problem, the financial or other implications of the problem, and the principles involved. When appropriate, it should also recommend what action should be taken to resolve the deficiency, giving clear indication of the area and level of management responsible for taking corrective action.

All reported observations, data, and conclusions must be supported by sufficient and appropriate evidence, including details in the report whenever it adds to the reader's understanding of the issue. Audit evidence is always recorded in the working papers, to support the content of the report. If an opinion is expressed, it should be clearly indicated as such.

Good practices which have been initiated in a specific area and which may apply to other areas may be identified during an audit. While the auditor would normally comment only on exceptions or problem areas in this section of the report, a report on such good practices would be a means of encouraging implementation throughout the organization.

Only the more important findings need be included in the written report. Other findings can be discussed with the auditee; where corrective action is taken during the course of the audit, specific comment need not be made in the report. The matters thus dealt with should be documented in the working papers.

Discussion of audit findings and recommendations

The findings and recommendations should be fully discussed with the officials responsible for the activities being commented upon, before the report is issued. Where the findings indicate a department-wide problem, they should be discussed with the senior financial officer or other headquarters officials responsible for the function under examination. Comments should be obtained from these officials and, where appropriate, incorporated into the report.

This practice allows the auditor to verify the content of the report, to view the observations and recommendations from the auditee's perspective, and to obtain a commitment from the responsible officer to take corrective action. When agreement cannot be reached the points of disagreement must be stated in the report.

Distribution of reports

The head of the internal audit group should have the right to distribute his reports directly to any level in the organization. As a minimum, the report should be distributed to the officials directly responsible for taking corrective action on the matters raised in it, to their superiors, and to the senior financial officer. The reports

should be utilized to the fullest extent possible to achieve improvements; senior management should therefore be encouraged to send the report, or extracts of the report, to managers of similar activities.

Follow-up of audit reports

The responsibility for taking action on audit observations and recommendations rests with the officials responsible for the financial operations. Procedures to ensure that corrective action is taken should therefore be established and included in the departmental financial manual.

The financial audit organization should follow up the corrective action taken on each recommendation. In subsequent audits the examination should include a review of the extent and effectiveness of corrective action taken on earlier recommendations. Audit reports should include a section on prior recommendations that indicates the extent of corrective action taken. If it is decided that a recommendation should not be implemented, the auditor should ensure that senior management is fully informed of the risks involved.

Supplementary reporting procedures

From time to time matters requiring prompt managerial action may come to the auditor's attention. This would include such matters as fraud, or deficiencies which result in either a continuing over-expenditure of funds or loss of resources. In such cases, the auditor must immediately submit a special report concerning the particular issue. The final report would include comment on the matter previously reported upon and the extent of the remedial action.

Oral presentations provide the auditor with a means of entering into face-to-face communications which increase interaction and can lead to better relations with management. The oral report is not a substitute for a well-prepared written report which, as stated earlier, is required in all cases.

Summary Reports to the Deputy Head

The deputy head is responsible for the establishment, maintenance, and operation of the department's financial function. It is the internal auditor's obligation to assist the deputy head in meeting these responsibilities by providing him with annual reports which provide information on the effectiveness and efficiency of the financial function within the department. Although an annual report to the deputy head should be mandatory, more frequent summary reports may be required at the deputy's discretion.

These reports should set out the coverage and results of audits, compared with the plan submitted to the deputy head. They should summarize the major audit findings and recommendations, comment on the extent of management follow-up and implementation of corrective action, provide conclusions on the adequacy of major components of the financial system, and highlight any other matters requiring attention.

It should also be emphasized that the head of the internal audit group has a responsibility, whenever important audit findings or matters of particular sensitivity or urgency come to his attention, to ensure that these matters are brought to the attention of the deputy head.

10. Treasury Board Evaluation of Departmental Systems of Financial Administration

Treasury Board is responsible under the *Financial Administration Act* for acting in matters of financial administration to safeguard the collective interests of the government. Through the policy and regulations contained in this guide and by various other documents, Treasury Board provides direction and guidance to departments in discharging their responsibilities for managing the financial function. In addition, Treasury Board must ensure that the performance of departments is acceptable. To achieve these objectives, the secretariat regularly reviews departmental financial administration policies and practices. This provides the basis for an annual report on the state of financial administration to the Treasury Board ministers.

The review program will be performed by the Office of the Comptroller General, supported by departmental staff in most cases. The effectiveness of a supporting system such as financial administration cannot be determined in isolation from the operations of a department, and the review will therefore not be limited to the organizations providing financial services. Nevertheless, these organizations will be of primary interest because they are expected to play a leading and coordinating role in departmental financial administration. Upon completion of each review, an evaluation report will be prepared for the deputy head of the department, copies of which will also be released to appropriate Treasury Board officials.

An evaluation of financial systems in each department or agency will be performed at least once every five years, with work between reviews being confined to follow-up activities and studies of particular problems. As a result of this work it is expected that a close functional relationship will be established between evaluation staff of the Office of the Comptroller General and financial staff in departments and agencies. This should result in the opening of new informal channels of communication, which will benefit both the departments and the Treasury Board.

The Office of the Comptroller General will review systems documentation prepared by financial staff, and programs and reports of internal auditors. If their work is found satisfactory, the Office of the Comptroller General will only supplement the work done within the department.

Appendix A Charts of the Internal Audit Process

Exhibit A
The Five Phases of the Internal Audit Process

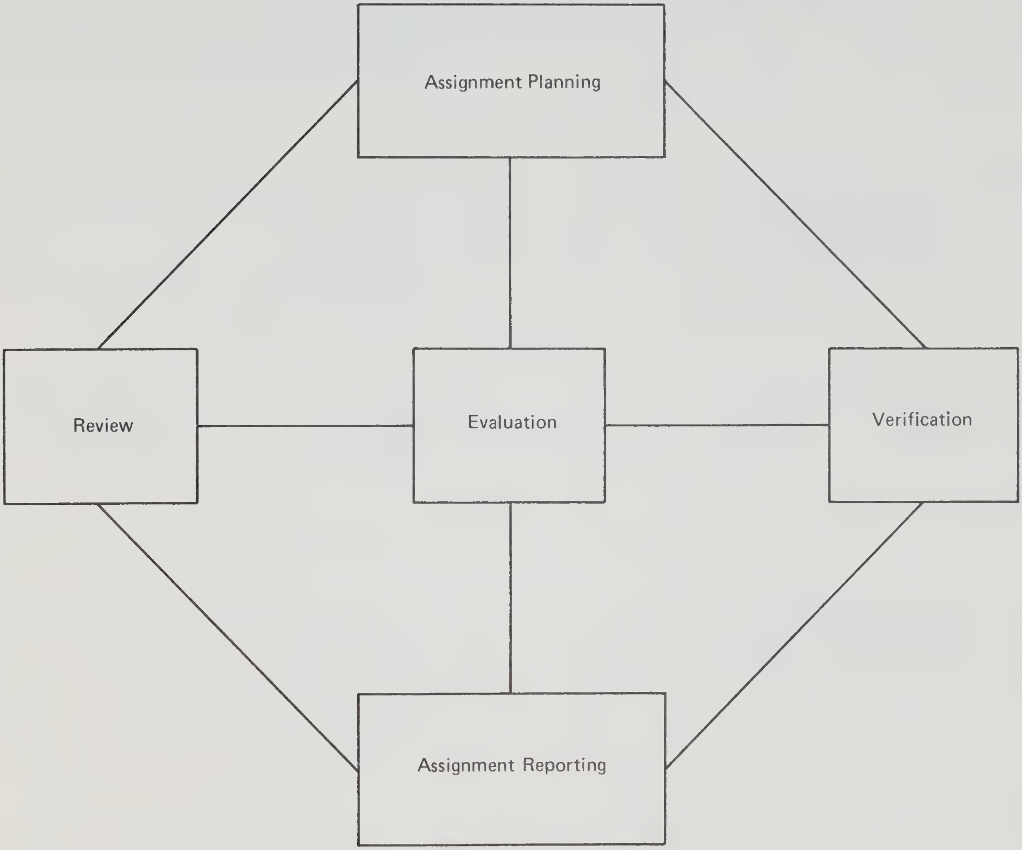


Exhibit B

Phase I Assignment Planning

Develop understanding of area audited	Background information Financial information/legislation Changes in personnel/systems Other audits
Select specific activities to be audited ☐	Nature of activity Materiality Management concerns Changes in systems Known control weaknesses
Select audit approach ☐	Systems-based Data-based Other approaches
Determine resource requirements ☐	Staff capability/availability Specialist staff Supervisory/review requirements Prepare budget and schedule Prepare assignment memorandum

☐ supervisory review point

Exhibit C

Phase II Review

Introductory meeting with auditee ☐	Topics: objectives, scope, reporting, schedule
Collect data	Methods: review existing documents, interview managers and staff, observe agency activities, analyse data and reports
Document the financial control framework	Methods: flow chart narrative checklist
Limited verification of documentation	Methods: enquiry, observation, analysis review of evidence of action limited transaction verification
Review and document environment controls	Impact of environment controls on the financial control framework

☐ supervisory review point

Exhibit D

Phase III Evaluation

Evaluate the financial control framework	Control model Methods: questionnaire, checklist Objectives: controls, weaknesses, non-compliance with external requirements, inefficiencies
Identify controls, deficiencies, inefficiencies	Environment controls Compensating controls Document all deficiencies
Identify essential controls, significant weaknesses, major inefficiencies	Materiality Nature of control or deficiency

☐ supervisory review point

Exhibit E

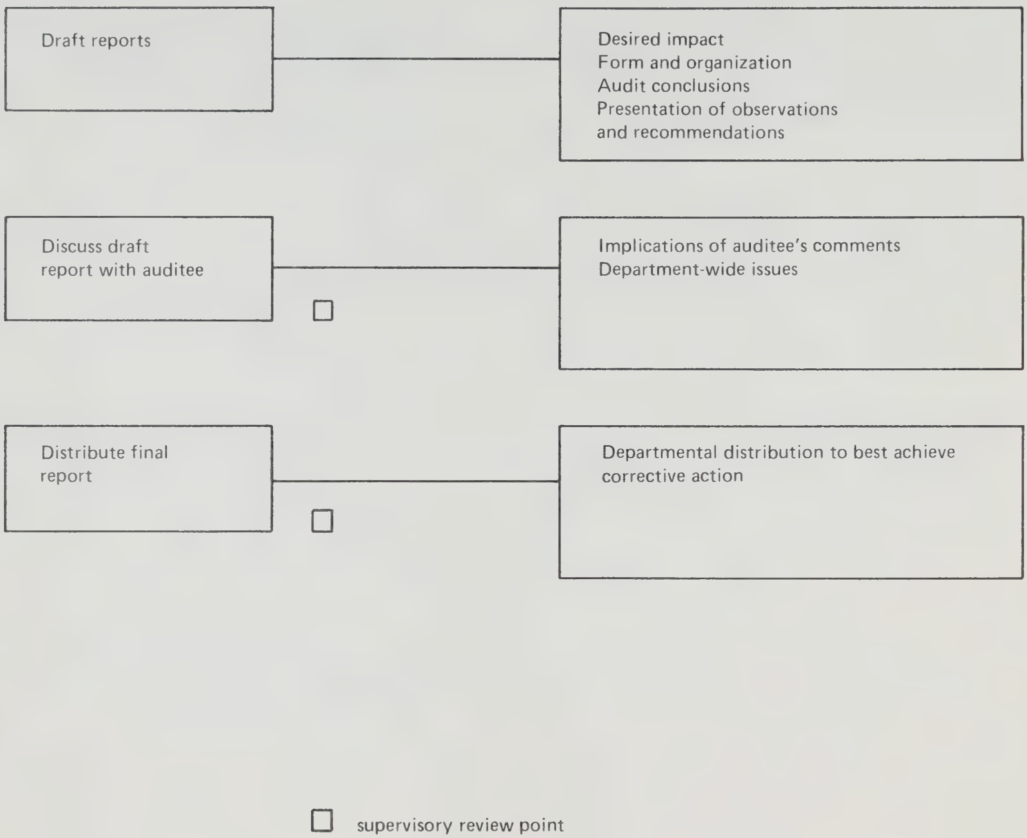
Phase IV Verification

Step	Review	Considerations
Plan verification steps		Appropriate techniques: transaction testing confirmation, enquiry, analysis, comparison Observation Computer audit techniques Statistical sampling
Confirm effective operation of essential controls		Materiality Confidence levels Results of verification steps
Substantiate existence of significant deficiencies and major inefficiencies	□	Cause Evidence required Potential effects Results of verification steps
Discuss observations with auditee	□	Verification of facts Initial reaction of auditee Oral report of minor deviations
Develop recommendations for improvement		Cause Practical and resource constraints Accounting and control principles External requirements

□ supervisory review point

Exhibit F

Phase V Assignment Reports



* APM: *Administrative Policy Manual*, published by the Administrative Policy Branch of the Treasury Board Secretariat.
* PMM: *Personnel Management Manual*, published by the Personnel Policy Branch of the Treasury Board Secretariat.

Regulations Governing the Verification of Accounts Before Payment, the Requisitioning of Payments and the Charging of Appropriations

Short Title

1. These Regulations may be cited as the Account Verification and Payment Requisition Regulations.

Interpretation

2. In these Regulations,

"account" means any invoice, statement, claim, contract, journal voucher or other voucher or document claiming payment from a department on a single or recurring payment basis;

"Act" means the Financial Administration Act;

"cheque requisition" means a requisition issued by the appropriate Minister and addressed to the Receiver General for a payment to be made by means of a cheque;

"contract" has the same meaning as in the Government Contracts Regulations;

"other payment requisition" means a requisition issued by the appropriate Minister and addressed to the Receiver General for a payment to be made by a means other than a cheque;

"payment requisition" means a cheque requisition or an other payment requisition;

all other words and expressions have the same meaning as in the Act.

Application

3. (1) These Regulations apply to every charge against an appropriation and every requisition for a payment out of the Consolidated Revenue Fund.

(2) Part I applies to every expenditure made from a departmental bank account.

Part I

Account Verification

4. Every deputy head shall, to the maximum extent practicable, divide the responsibilities for functions related to

(a) the procurement, receiving and certification of goods and services; and

(b) the verification of accounts and the preparation and signing of payment requisitions.

5. Every deputy head shall establish and maintain adequate procedures for the verification of accounts before their payment and the preparation of payment requisitions, including procedures for ensuring

(a) that the work has been performed, the goods supplied or the service rendered, as the case may be, and that the price charged is according to contract, or if not specified by contract, is reasonable;

(b) that supplies and services are in accordance with contract specifications and that all the terms and conditions of the contract have been met;

(c) that, where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, such payment is specifically provided for in the contract;

(d) that applicable discounts have been deducted, that charges not payable have been eliminated and that the computation of the amount payable is correct;

(e) that all relevant statutes, regulations, orders in council and Treasury Board directives have been complied with;

(f) that any specific Treasury Board instructions concerning the matter in respect of which the payment is being requested have been adhered to;

(g) that no expenditure in excess of an allotment or appropriation will result from the payment, nor will the balance available in the relevant appropriation be reduced so that it would not be sufficient to meet the commitments charged against it;

(h) that funds are immediately available in the relevant appropriation to meet the payment;

(i) that the payment is a proper charge against the relevant allotment and is legally chargeable against the relevant appropriation;

(j) that the account has not previously been paid in whole or in part;

(k) that where a Crown debt has been assigned or a power of attorney is in force, payment is requisitioned in favour of the assignee or attorney, as the case may be;

(l) that the proper expenditure coding is identified in the requisition; and

(m) that any other procedures necessary in relation to the payment are carried out.

Part II

Payment Requisitioning

6. (1) Every cheque requisition shall be made in a form agreed upon between the appropriate Minister and the Receiver General in accordance with the requirements set out in Schedules I and II.

(2) Every other payment requisition shall be made in a form approved by the Treasury Board in accordance with the requirements set out in Schedule II.

7. (1) Every payment requisition shall be signed by the appropriate Minister or by a person authorized by him in writing and such signature constitutes a certificate that all the information contained in the payment requisition as required by these Regulations is accurate and that all verification procedures required by section 5 have been carried out.

(2) Every payment requisition shall be signed as required by subsection (1) immediately below the certification required by section 8.

(3) Where section 27 of the Act is applicable, no payment requisition shall be signed as required by subsections (1) and (2) unless the person signing the requisition has in his possession a certificate required by that section.

8. Every payment requisition shall be certified as follows:

(a) where it is for a single payment, "Requisitioned for payment pursuant to section 26 of the Financial Administration Act and certified in accordance with subsection 7(1) of the Account Verification and Payment Requisition Regulations" or

"Demande de paiement aux termes de l'article 26 de la Loi sur l'administration financière. Certifié conformément au paragraphe 7(1) du Règlement sur le contrôle des comptes et la demande de paiement;" or

(b) where it is for a recurring payment, "Requisitioned pursuant to section 26 of the Financial Administration Act for continuing payment until advised otherwise and certified in accordance with subsection 7(1) of the Account Verification and Payment Requisition Regulations" or

"Demande de paiement continu jusqu'à avis contraire aux termes de l'article 26 de la Loi sur l'administration financière. Certifié conformément au paragraphe 7(1) du Règlement sur le contrôle des comptes et la demande de paiement."

9. Specimen signatures of all persons authorized to sign payment requisitions shall be supplied by the appropriate Minister to the Receiver General in such numbers as the Receiver General may require.

10. (1) Any payment made pursuant to a payment requisition submitted to the Receiver General shall be charged to the appropriation identified on the requisition.

(2) The appropriation to be charged in accordance with subsection (1) shall be the appropriation identified on the payment requisition by the appropriation expenditure coding used in accordance with the procedures prescribed by the Treasury Board.

11. During the month of April, and during such other period or periods of time in each fiscal year as may be determined by the appropriate Minister, a payment requisition shall indicate the fiscal year to which the payment is chargeable.

Schedule I

Form of Cheque Requisitions

1. A department may elect to use one of three basic forms of cheque requisitions, namely,

(a) a separate cheque requisition;

(b) a cheque requisition incorporated into a departmental operating document; or

(c) a cheque requisition based on an account.

Separate Cheque Requisitions

2. (1) A department that elects to use a separate cheque requisition and has need for an individual departmental requisition shall provide for the recording of all the information required by Schedule II.

(2) Where a department uses a separate cheque requisition, it shall supply the Receiver General, in addition to one copy of the requisition to be retained by him, with a further copy of the requisition or with another document showing details of the accounts in respect of which the payment is requested or showing the purpose of the payment, which further copy or other document may be used as a payment notice to be forwarded to the payee with the cheque unless arrangements have been made with the Receiver General to identify the purpose of the payment on the stub of the cheque.

Cheque Requisitions Incorporated into Departmental Operating Documents

3. A department involved in a large volume of payments of an operational nature, both on a single or recurring payment basis, may incorporate a cheque requisition form into a departmental operating document that provides for the recording of the information required by Schedule II.

Cheque Requisitions Based on Accounts

4. (1) A department that elects to use accounts as the base for cheque requisitions may use either the original account or a duplicate account for this purpose.

(2) An account presented as the base for a cheque requisition shall be retained by the Receiver General.

(3) Complementary information sheets shall be attached to the accounts and shall provide the information required by Schedule II that does not appear on the accounts.

(4) Rubber stamped impressions on documents shall not be used for the purpose of complying with subsection (3).

(5) Where voucher serial numbers are in use, they may be substituted for the requisition serial number required by subparagraph (1)(a)(ix) of Schedule II.

Schedule II

Information Required on Payment Requisitions

1. Every form of payment requisition shall provide for the following information to be recorded thereon:

(a) for completion by the requisitioning department,

(i) the name of the department and, where necessary, the organizational unit submitting the requisition,
(ii) the date of the requisition,
(iii) the name of the payee,
(iv) the address to which any cheque is to be sent,
(v) the amount of the payment and the national currency in which any cheque is to be drawn,
(vi) where recurring payments are involved, the effective date for the commencement of payments,
(vii) the certificate required under section 26 of the Act,
(viii) the signature of the person authorized to sign the requisition,
(ix) the requisition serial number,
(x) the relevant expenditure coding,
(xi) during the periods referred to in section 11, the fiscal year chargeable, and
(xii) any further details required by the Receiver General to enable the making of the payment and any consequent accounting for the payment that is his responsibility;

(b) for completion by the paying officer,

(i) the date of payment,
(ii) the cheque serial number, and
(iii) any further details required to be recorded by the Receiver General.

Regulations Re Repayment of Money Received

1. Where money has been paid to a public officer for any purpose and is in excess of the amount prescribed for that purpose, the excess amount so paid may, after it has been paid into the Consolidated Revenue Fund, be repaid to the person who paid it or his legal representatives.

2. Where money has been paid to a public officer for any purpose and the appropriate Minister is of opinion that

   (a) the purpose for which the money has been paid has not been fulfilled, and

   (b) no service has been rendered by or on behalf of Her Majesty,

   the amount so paid may, after it has been paid into the Consolidated Revenue Fund, be repaid to the person who paid it or his legal representatives.

3. (1) Where money has been paid to a public officer for any purpose and the appropriate Minister is of opinion that the purpose for which the money has been paid has not been fulfilled but that a service has been rendered by or on behalf of Her Majesty, the appropriate Minister shall, after the money has been paid into the Consolidated Revenue Fund, refer the matter to the Treasury Board with a statement of the relevant facts.

   (2) Where a reference is made to the Treasury Board pursuant to subsection (1), the Board shall determine the amount, if any, that is to be retained by Her Majesty in respect of any service rendered and the balance, if any, shall be repaid to the person who paid it or his legal representatives.

4. Where money paid to the credit of the Receiver General is not public money, the appropriate Minister may order that the amount so paid be repaid to the person who paid it or his legal representatives.

Regulations* Respecting the Drawing, Issuing and Control of Cheques, the Issue of Duplicate Cheques to Replace Undelivered, Lost, Destroyed or Stolen Cheques and the Establishment of Departmental Bank Accounts

Short Title

1. These Regulations may be cited as the *Cheque Issue Regulations.*

Interpretation

2. In these Regulations,

"cheque" means

(*a*) in Parts I and II, a cheque, bill of exchange or other instrument, other than an instrument in an electronic or machine-readable form, drawn or issued in Canadian currency or otherwise by or on behalf of the Receiver General, and

(*b*) in Parts III, IV and V, a cheque, bill of exchange or other negotiable instrument drawn or issued in Canadian currency or otherwise by officers of a department authorized in writing by the appropriate Minister to draw or issue such instruments on a departmental bank account established for that department; (*chèque*)

"departmental bank account" means an account established in a financial institution in accordance with the authorization of the Treasury Board given pursuant to Part III; (*compte de banque du ministère*)

"financial institution" means

(*a*) a member of the Canadian Payments Association,

(*b*) any local cooperative credit society that is a member of a central cooperative credit society having membership in the Canadian Payments Association, or

(*c*) any fiscal agent or financial institution designated by the Minister pursuant to subsection 11(2) of the *Financial Administration Act*; (*institution financière*)

"holder for value" has the same meaning as in section 54 of the *Bills of Exchange Act*; (*détenteur contre valeur*)

"machine-readable" means being capable of being read or interpreted by an automatic sensing device by a method other than optical scanning or the use of a Magnetic Ink Character Recognition (MICR) system; (*assimilable par une machine*)

"Receiver General" means the Minister of Supply and Services and "Deputy Receiver General" means the Deputy Minister of Services; (*receveur général*)

"Superintendent" means the Superintendent of Insurance appointed under the *Department of Insurance Act*. (*surintendant*)

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* Pursuant to paragraph 6(*f*) of the *Financial Administration Act* [SOR/80-474, as amended by SORs/83-827, 83-830, 85-589 and 86-439]

Part I
Drawing or Issuing Receiver General Cheques

3. The Receiver General shall be responsible for the procuring, numbering and safekeeping of the forms for cheques.

4. (1) Every cheque drawn or issued shall

(*a*) subject to section 5, bear

(i) the signature of the Receiver General, or any person authorized in writing by the Receiver General to sign cheques on his behalf, and

(ii) the signature of the Deputy Receiver General or any person authorized in writing by the Receiver General to sign on behalf of the Deputy Receiver General;

(*b*) be in a form containing the words "pay to the order of..." or "pay to...";

(*c*) bear the name of the payee;

(*d*) be for a specified amount;

(*e*) bear no alteration or erasure in the amount thereof or in the name of the payee; and

(*f*) bear the date of

(i) the day on which it is drawn or issued,

(ii) the day on which the payment in respect of which it is drawn or issued is due, or

(iii) the day on which the payment in respect of which it is drawn or issued is to be made; or

(*g*) where authorization of the Receiver General is granted pursuant to subsection (2), be dated in accordance with such authorization.

(2) The Receiver General may authorize the dating of a cheque by reference only to the month and year in which the payment in respect of which the cheque is drawn or issued is due and without reference to any day of the month, where the cheque

(*a*) is not released before the month in which the payment is due;

(*b*) is paid under or pursuant to an Act of the Parliament of Canada that does not specify a day on which the payment shall be made;

(*c*) represents a recurring payment in a fixed amount authorized by an Act of the Parliament of Canada; and

(*d*) is drawn or issued in respect of an amount that is due not more than once a month.

5. Where the Receiver General authorizes the signing of cheques by the use of mechanical equipment capable of reproducing facsimiles of the signature or signatures of the person or persons referred to in paragraph 4(1)(*a*), such cheques may be so signed.

Part II
Duplicate and Replacement Cheque Issue—Receiver General Cheques

Undelivered Cheques

6. (1) Subject to subsections (2) and (3), where the payee of a cheque reports that the cheque was not received by or delivered to him, the Receiver General or a public officer authorized by him may issue a duplicate cheque to the payee for the same amount as the original cheque if the payee provides

(*a*) where the cheque was for an amount greater than two thousand dollars, an affidavit or statutory declaration respecting the non-receipt or non-delivery of the original cheque; and

(*b*) in any case, an undertaking whereby the payee agrees to return the original cheque to the Receiver General if it should come into his possession and to indemnify and save harmless Her Majesty in right of Canada from any loss or expense incurred in connection therewith.

(2) Where a payee referred to in subsection (1) is

(*a*) a board, commission, Crown corporation or other division or branch of the public service of Canada,

(*b*) a province or a board, commission, Crown corporation or other division or branch of the public service of the province,

(*c*) a municipality or a municipal board or commission, or

(*d*) a financial institution,

the Receiver General or a public officer authorized by him may issue a duplicate cheque to the payee for the same amount as the original cheque if the payee provides

(*e*) a signed statement that the original cheque was not received by or delivered to him; and

(*f*) an undertaking whereby the payee agrees to return the original cheque to the Receiver General if it should come into his possession and to indemnify and save harmless Her Majesty in right of Canada from any loss or expense incurred in connection therewith.

(3) Where a payee referred to in subsection (1)

(*a*) is employed in the public service of Canada, or

(*b*) receives a pension, an annuity or other recurring payment out of the Consolidated Revenue Fund,

the Receiver General or a public officer authorized by him may issue a duplicate cheque to the payee for the same amount as the original cheque if the payee provides an undertaking whereby the payee agrees to return the original cheque to the Receiver General if it should come into his possession and to indemnify and save harmless Her Majesty in right of Canada from any loss or expense incurred in connection therewith.

Lost, Destroyed or Stolen Cheques—Payees

7. (1) Subject to subsection (2), where the payee of a cheque reports that the cheque has been lost, destroyed or stolen, the Receiver General or a public officer authorized by him may issue a duplicate cheque to the payee for the same amount as the original cheque if the payee provides

(*a*) where the cheque was for an amount greater than two thousand dollars, an affidavit or statutory declaration respecting the loss, destruction or theft of the original cheque; and

(*b*) in any case, an undertaking whereby the payee agrees to return the original cheque to the Receiver General if it should come into his possession and to indemnify and save harmless Her Majesty in right of Canada from any loss or expense incurred in connection therewith.

(2) Where a payee of a cheque referred to in subsection (1)

(*a*) is a board, commission, Crown corporation or other division or branch of the public service of Canada,

(*b*) is a province or a board, commission, Crown corporation or other division or branch of the public service of the province,

(*c*) is a municipality or a municipal board or commission,

(*d*) is a financial institution,

(*e*) is employed in the public service of Canada, or

(*f*) receives a pension, an annuity or other recurring payment out of the Consolidated Revenue Fund,

and the cheque was for an amount greater than two thousand dollars, the Receiver General or a public officer authorized by him may issue a duplicate cheque to the payee for the same amount as the original cheque if the payee provides an undertaking whereby the payee agrees to return the original cheque to the Receiver General if it should come into his possession and to indemnify and save harmless Her Majesty in right of Canada from any loss or expense incurred in connection therewith.

Lost, Destroyed or Stolen Cheques—Banks or Financial Institutions

8. Where a financial institution reports that a cheque

(*a*) has been accepted by it for collection or redemption, and

(*b*) subsequent to acceptance by it, has been lost, destroyed or stolen,

the Receiver General or a public officer authorized by him may credit the financial institution with the amount for which the cheque was issued if the financial institution provides an undertaking whereby it agrees to return the cheque to the Receiver General if it should come into its possession and to indemnify and save harmless Her Majesty in right of Canada from any loss or expense incurred in connection therewith.

Lost, Destroyed or Stolen Cheques—Holders for Value

9. (1) Subject to subsection (2), where a *bona fide* holder for value of a cheque reports that the cheque has been lost, destroyed or stolen, the Receiver General or a public officer authorized by him may issue a replacement cheque for the same amount as the original cheque in the name of the holder if the holder agrees to indemnify and save harmless Her Majesty in right of Canada against loss by providing a bond of indemnity in the amount for which the original cheque was issued,

(*a*) of a guaranty company approved by the Superintendent; or

(*b*) of the holder and each of two sureties.

(2) Where a *bona fide* holder for value referred to in subsection (1) is

(*a*) a board, commission, Crown corporation or other division or branch of the public service of Canada,

(*b*) a province or a board, commission, Crown corporation or other division or branch of the public service of the province, or

(*c*) a municipality or a municipal board or commission,

the Receiver General or a public officer authorized by him may issue a replacement cheque for the same amount as the original cheque in the name of the holder if the holder provides an undertaking whereby he agrees to return the original cheque to the Receiver General if it should come into his possession and to indemnify and save harmless Her Majesty in right of Canada from any loss or expense incurred in connection therewith.

General

10. Notwithstanding anything in this Part, where the Receiver General is notified by an employee or officer of a department, the Post Office or another carrier, the Royal Canadian Mounted Police or a provincial or municipal police force that one or more cheques cannot be delivered to the payee or payees thereof by reason of

(*a*) an act of God,

(*b*) fire,

(*c*) theft,

(*d*) loss in the course of delivery, or

(*e*) inaccessibility that will result in a delay in delivery beyond the date on which the payment in respect of which the cheque was drawn or issued is due,

the Receiver General or a public officer authorized by him may issue, pursuant to this Part, one or more duplicate cheques without the provision of any document that would otherwise be required pursuant to this Part.

11. Every duplicate cheque issued in accordance with this Part shall bear the word "Duplicate" written or printed across the face thereof.

12. For the purposes of this Part, a reference to one of the following documents, namely,

(*a*) an affidavit or undertaking, or

(*b*) a statutory declaration or bond of indemnity,

shall be read as a reference to such document in a form satisfactory to the Receiver General.

Part III
Departmental Bank Accounts

13. (1) The Treasury Board may authorize, in accordance with subsection (2), the appropriate Minister of a department who is required to make expenditures in locations where the normal facilities for the issue of Receiver General cheques are not immediately available, to apply to the Receiver General for the establishment of an account in a financial institution in the name of the department or in the name of a branch or division thereof, for the purpose of operating an accountable advance from the Consolidated Revenue Fund in accordance with the *Accountable Advances Regulations*.

(2) The authorization granted by Treasury Board to an appropriate Minister pursuant to subsection (1) shall be in writing and shall set out

(*a*) the classes of expenditures that may be made from the account; and

(*b*) the number of signatures required in respect of any cheque drawn on the account.

(3) Notwithstanding any authorization granted by Treasury Board pursuant to subsection (1), the Treasury Board may, in respect of any departmental bank account, direct the appropriate Minister in respect of that account or the Receiver General to

(*a*) direct the financial institution in which the account is established to refuse payment of any cheque drawn on that account;

(*b*) withdraw the authority given to any person to draw cheques on that account; and

(*c*) discontinue a departmental bank account and pay the balance remaining therein to the Receiver General.

13.1 (1) Subject to subsection (2), no disbursement in excess of $1,000 shall be made from a departmental bank account without the approval of the Treasury Board.

(2) Subsection (1) does not apply to a disbursement made from a departmental bank account for the purpose of

(*a*) paying locally-engaged staff where a department has authority to make such payments; or

(*b*) issuing an emergency salary advance under paragraph 4(*b*) of the *Accountable Advances Regulations*.

(3) No disbursement shall be made from a departmental bank account for the purpose of settling interdepartmental accounts.

14. (1) Subject to subsection (2), an appropriate Minister shall, at the time of establishing a departmental bank account in a financial institution, and where appropriate thereafter, instruct the manager thereof to forward to him or to some other individual designated by him at regular intervals of at least once a month, a statement of transactions in connection with the account together with all cheques drawn on the account that have been honoured.

(2) For the purposes of subsection (1), an appropriate Minister shall not designate a person who has authority to draw cheques on a departmental bank account as an individual to whom a statement of transactions in connection with the account may be forwarded.

(3) All money received to establish, replenish or augment a departmental bank account or as a refund or repayment of an expenditure or advance made from the account shall be deposited in the account.

Part IV
Drawing Departmental Bank Account Cheques

15. The appropriate Minister responsible for a departmental bank account shall be responsible for the procuring, numbering and safekeeping of the forms for cheques.

16. Every cheque drawn shall

(*a*) bear the signature of a person or persons authorized in writing by the appropriate Minister;

(*b*) be in a form containing the words "pay to the order of..." or "pay to...";

(*c*) bear the name of the payee;

(*d*) be for a specified amount;

(*e*) bear no alteration or erasure in the amount thereof or in the name of the payee; and

(*f*) bear the date of the day on which it is drawn.

Part V
Drawing Replacement Cheques—Departmental Bank Account Cheques

17. (1) Subject to subsection (2), where

(*a*) the payee of a cheque reports that the cheque was not received by or delivered to him or that the cheque has been lost, destroyed or stolen, or

(*b*) a *bona fide* holder for value of a cheque reports that the cheque has been lost, destroyed or stolen,

the appropriate Minister in respect of the departmental bank account on which the cheque is drawn, or a public officer authorized by him, may draw a replacement cheque to the payee or holder for value, as the case may be, for the same amount as the original cheque if the payee or holder for value provides

(*c*) where the cheque was for an amount greater than two thousand dollars, an affidavit or statutory declaration respecting the non-receipt, non-delivery, loss, destruction or theft of the original cheque; and

(*d*) in any case, an undertaking whereby the payee or holder for value agrees to return the original cheque to the drawing office if it should come into his possession and to indemnify and save harmless Her Majesty in right of Canada from any loss or expense incurred in connection therewith.

(2) No replacement cheque shall be drawn pursuant to subsection (1) except where

(*a*) the original cheque has not been cleared through the financial institution in which the departmental bank account in respect of that cheque is located; and

(*b*) a stop payment direction has been made in respect of the original cheque.

(3) In this section,

"drawing office" means, in respect of a cheque, the office of the department by which the cheque was drawn.

18. For the purposes of this Part, a reference to one of the following documents, namely,

(*a*) an affidavit or undertaking, or

(*b*) a statutory declaration,

shall be read as a reference to such document in a form satisfactory to the appropriate Minister.

Regulations Respecting the Assignment of Crown Debts

1. These regulations may be cited as the Assignment of Crown Debt Regulations.

2. In these regulations
   (a) "Act" means the Financial Administration Act; and
   (b) "assignment" means an assignment referred to in subsection (1) of section 81 of the Act.

3. For the purposes of Part IX of the Act, the following persons are designated as paying officers:
   (a) departmental services officers;
   (b) area services officers; and
   (c) regional services officers.

4. (1) A notice of assignment required by subsection (1) of section 82 of the Act shall be in the form set out in Appendix A.
   (2) the acknowledgement of assignment referred to in subsection (2) of section 82 of the Act shall be in the form set out in Appendix B.

5. There shall be submitted in connection with a notice of assignment that is not accompanied by the original written assignment or a duplicate copy of the original assignment, a notarial certificate attached to a copy of the assignment certifying that the said copy is a true copy of the original assignment in respect of which the notice is being given.

6. Where an assignment was made by a corporation, notice of the assignment shall be accompanied by the following documents:
   (a) in the event that the affixing of the corporate seal to the assignment has not been witnessed by the president and secretary of the corporation or the president and secretary-treasurer of the corporation, a copy of the by-law or resolution of the board of directors, pursuant to which the individuals witnessing the affixing of the seal on behalf of the corporation were authorized to so witness,
      (i) submitted over the seal of the corporation witnessed by the secretary or secretary-treasurer of the corporation,
      (ii) certified to be a true copy of the resolution or by-law, and
      (iii) certified to have been in effect on the date the assignment was made; and
   (b) in the event that the assignment in respect of which the notice is being given was signed by a trustee or a liquidator, a copy of the court appointing such trustee or liquidator, as the case may be.

7. Where an assignment was made by a partnership, notice of the assignment shall be accompanied by the following documents:
   (a) an affidavit of execution completed by the person who witnessed the signature of the partner or partners executing the assignment; and

(b) in the event that the assignment in respect of which the notice is being given was made in the Province of Quebec and attested to by the signatures of one or more of the partners but not all of the partners, a document establishing to the satisfaction of the Receiver General the authority pursuant to which the partner or partners that signed the assignment may make such assignment on behalf of the partnership.

8. Where an assignment was made by anyone other than a corporation or a partnership, notice of the assignment shall be accompanied by an affidavit of execution completed by the person who witnessed the signature of the person executing the assignment.

9. Where an assignment was made outside of Canada, notice of the assignment shall be accompanied by a written opinion of the legal counsel to any Canadian diplomatic, consular or trade representative in the country in which the assignment was made as to whether the assignment is valid and binding on the assignor under the laws of the jurisdiction in which such assignment was made.

10. (1) Surpluses and balances of surpluses payable by The Director, The Veterans' Land Act, to veterans pursuant to subsection (6) of section 13 or subsection (1) of section 24 of the Veterans' Land Act are a class of Crown debts within the meaning of subsection (1) of section 81 of the Financial Administration Act.

(2) In this section the word "veteran" has the meaning assigned to it in the Veterans' Land Act.

11. Compensation moneys, including any interest thereon, payable pursuant to the Expropriation Act for any land or property acquired or taken by Her Majesty are a class of Crown debts within the meaning of subsection (1) of section 81 of the Financial Administration Act.

Appendix A

To the Receiver General:

You are hereby notified that by an assignment dated the...............day of..............., 19........, (the assignor)...................has assigned to (the assignee), [(the sum of $...........being moneys) or (all moneys)] due *or* becoming due by the Crown as represented by the Minister of...................to (the assignor) under...............for (purpose) dated the..............................day of..................., 19..................., numbered................

You are required to make payment of such moneys to (the assignee) at (place where payment is to be made).

Dated this..................................day of...................., 19...........

....
Signature and address of assignee

Appendix B

This will acknowledge that notice has been received in this office that by an assignment dated the...........day of.......................,19...........,(the assignor) has assigned to you [(the sum of $.......) or (all moneys)] due *or* becoming due by the Crown to (the assignor) under...................for (purpose) dated the...............day of..................,19......., numbered................

....
Appropriate paying officer for
Receiver General

Regulations Governing the Making of Payments where Crown Debts have been assigned pursuant to Part IX of the Financial Administration Act, or Debts are Payable under Powers of Attorney

1. These regulations may be cited as the Assigned Debt and Power of Attorney Payment Regulations.

2. In these regulations:

(a) "assignment" means an assignment referred to in sub-section (1) of section 81 of the Financial Administration Act;

(b) "debt" means any existing or future debt due or becoming due by the Crown on which a power of attorney may be accepted or which may be assigned pursuant to Part IX of the Financial Administration Act;

(c) "legal officer" means a legal officer of the Crown designated by the Receiver General to approve the acceptance of notices of assignment of Crown debts and powers of attorney;

(d) "notice of acceptance" means a notice from a paying officer to a requisitioning officer advising that a notice of assignment or a power of attorney has been accepted by a legal officer, the notice to be in the form prescribed in Appendix A;

(e) "paying officer" has the same meaning as in section 3 of the Assignment of Crown Debt Regulations;

(f) "power of attorney" means an authority in writing, signed by a person to whom a debt is owing, authorizing another person, named therein, to receive monies due upon the debt, and to give a valid receipt or discharge therefor;

(g) "requisitioning officer" means the principal officer authorized to requisition payments against a debt and "other appropriate requisitioning officer" means any other officer or person authorized to requisition payments against the same debt; and

(h) "supporting documents" means the documents prescribed in the Assignment of Crown Debt Regulations, or in the case of a power of attorney any document required by the Receiver General.

3. Any notice of assignment of a debt or any power of attorney received directly from an assignee or attorney by a department must be transmitted immediately to a paying officer.

4. Every paying officer shall maintain a record of all notices of assignment and powers of attorney received by him and the dates on which action is taken on them as required by sections 5, 7, 8, 10 and 15 of these regulations.

5. Every paying officer shall advise the requisitioning officer in writing of any notice of assignment or power of attorney received by him and shall obtain from the requisitioning officer:

(a) verification of the details included in the documents, and

(b) such other information as the legal officer may require in order to confirm the acceptability of the assignment or power of attorney.

6. (1) Where a requisitioning officer receives a notice from a paying officer that a notice of assignment or power of attorney has been received by the Receiver General he shall

(a) cause all requisitions for payments against the debt concerned to be withheld until confirmation of the acceptance of the assignment or power of attorney has been notified in accordance with section 10, or notification of rejection has been received in accordance with section 8, and
(b) notify any other appropriate requisitioning officer that the debt is subject to a notice of assignment or power of attorney.

(2) Every other appropriate requisitioning officer notified in accordance with paragraph (b) of sub-section (1) shall withhold all requisitions for payment as required by paragraph (a) of sub-section (1).

7. Every paying officer shall transmit each notice of assignment and power of attorney together with the supporting documents to the legal officer.

8. Where a legal officer finds that a notice of assignment or power of attorney is not acceptable he shall return it to the paying officer indicating the reasons why it is not acceptable, and the paying officer shall

(a) where the notice of assignment or power of attorney can be made acceptable, advise the person designated as the assignee or attorney, as the case may be, of the action needed to be taken to make it acceptable; or

(b) where the notice of assignment or power of attorney must be rejected

(i) advise the person designated as the assignee or attorney of the reasons for the rejection, and
(ii) advise the requisitioning officer that the notice of assignment or power of attorney has been rejected and that payments may be resumed as if no notice of assignment or power of attorney had been received.

9. Where a legal officer is satisfied that a notice of assignment or a power of attorney is acceptable, he shall endorse the document accordingly and return it together with the supporting documents to the paying officer.

10. Every paying officer receiving a notice of assignment or a power of attorney endorsed as acceptable by a legal officer shall complete a notice of acceptance and shall transmit the notice to the requisitioning officer together with the notice of assignment or power of attorney and the supporting documents.

11. Every requisitioning officer receiving a notice of acceptance shall complete and detach the acknowledgement portion of the notice and shall return it immediately to the paying officer.

12. Every paying officer who receives a properly completed acknowledgement portion of a notice of acceptance that relates to an assignment, shall comply with the provisions of sub-section (2) of section 82 of the Financial Administration Act, using the form of acknowledgement of assignment prescribed in sub-section (2) of section 4 of the Assignment of Crown Debt Regulations.

13. (1) Where a requisitioning officer has acknowledged receipt of a notice of acceptance he shall transmit to every other appropriate requisitioning officer a copy of the notice.

(2) Every other appropriate requisitioning officer receiving such copy of the notice of acceptance shall complete and detach the acknowledgement portion of the notice and return it immediately to the requisitioning officer.

(3) Every requisitioning officer shall ensure that an acknowledgement is received for every copy of a notice of acceptance sent to another appropriate requisitioning officer.

14. Every requisitioning officer and other appropriate requisitioning officer holding a notice of acceptance or a copy of same shall

(a) affix the notice, or copy of same, to the copy of the contract, purchase order, lease or other document used for the purpose of verifying accounts before payment in respect of the debt concerned;

(b) maintain for each assignment or power of attorney a record of all payments made thereunder; and

(c) prepare every requisition for payment in respect of the debt concerned in favour of the assignee or the attorney, as the case may be.

15. Where a notice of assignment is received, the purpose of which is to make a reassignment of a debt which is already subject to an assignment, the requirements of these regulations shall be applied to the reassignment in the same manner as if it were an original assignment.

16. (1) Where a power of attorney is revoked

(a) the paying officer shall immediately advise both the attorney and the requisitioning officer of the revocation; and

(b) the requisitioning officer shall immediately advise any other appropriate requisitioning officer concerned of the revocation.

(2) No payments against the debt shall be requisitioned until two weeks have elapsed after the date of the advice sent as required in paragraph (1) (a), after which time all payments shall be requisitioned in favour of the person to whom the debt is owed.

17. Every requisitioning officer shall prepare and transmit to every other appropriate requisitioning officer a copy of every notice, letter or other advice which has regard to the requirements of these regulations, and where such copy has been received the other appropriate requisitioning officer shall take the necessary action upon it as if it were the original document, except only as specified otherwise in these regulations.

Appendix A

Notice of Acceptance of the Assignment of a Crown Debt or a Power of Attorney

To..(Requisitioning Officer)
Department of..

You are hereby notified that the attached notice of assignment of a Crown debt/power of attorney dated..................has been accepted on behalf of the Receiver General by the appropriate legal officer, in the sum of $..........being moneys due or becoming due by the Crown to..................(the assignor/donor)....................................under (specify contract expropriation, etc.).......dated..............................numbered ....for (purpose of contract/identity of expropriation, etc.)..

The Assigned Debt and Power of Attorney Payment Regulations require you to take the following action:

1) complete the acknowledgement portion at the foot of this notice and return it to the sender by return mail,
2) send a copy of this notice to any other appropriate officer authorized to requisition payments against the debt concerned,
3) attach this notice to the copy of the contract, purchase order, lease or other document used to verify payments made against the specified debt,
4) maintain a record of payments made under this assignment/power of attorney,
5) prepare every requisition for payment in respect of the debt concerned nominating the assignee/attorney as the payee.

Date....................................

....
Authorized Paying Officer for
Receiver General

Acknowledgement of Notice of Acceptance

To..
....

Receipt is acknowledged of notice of acceptance dated..in respect of the assignment of a Crown debt/power of attorney made in respect of the sum of $...................being moneys due or becoming due by the Crown to...
(the assignor/donor) under (specify contract expropriation, etc.)
dated.......................................numbered ....
(purpose of contract/identity of expropriation, etc.)

Department of ....
Date..

....
Authorized Requisitioning Officer
for Minister

Regulations Respecting the Recording of the Collection
and Receipt of Public Money and the Deposit of Public Money
to the Credit of the Receiver General

Short Title

1. These Regulations may be cited as the Receipt and Deposit of Public Money Regulations.

Interpretation

2. In these Regulations, "transfer account" means an account established by the Receiver General pursuant to section 5 in which public money deposited pursuant to paragraph 6(1)(d) is to be held until it is transferred to the Receiver General Account in the Bank of Canada, and all other words and expressions have the same meaning as in the Financial Administration Act.

Recording of Collection or Receipt of Public Money

3. Every statement issued by a public officer relating to an amount of money that is or may be due to Her Majesty in right of Canada shall specify that the paying instrument shall be made payable to the Receiver General.

4. Every person who collects or receives public money shall

   (a) keep a register in which he shall record the collection or receipt of all public money collected or received by him; and

   (b) upon request, or where directed by the appropriate Minister, issue a receipt or acknowledgement for any public money collected or received by him in cash.

Transfer Accounts

5. The Receiver General shall, at the request of the appropriate Minister, establish in the name of the Receiver General and in respect of a department an account with a chartered bank or fiscal agent designated by the Minister of Finance.

Deposit of Public Money Collected or Received

6. (1) Subject to subsection (2), all public money collected or received shall,

   (a) each day, where the total public money on hand is one hundred dollars or more, and
   (b) not less than once a week, in any case,
   be deposited by the person who collects or receives it, or by such other person as the appropriate Minister may designate,
   (c) with the Bank of Canada or one of its agencies to the credit of the Receiver General,
   (d) in a transfer account, or

(e) where no transfer account has been established, with a branch of a chartered bank or with a fiscal agent designated by the Minister of Finance for transfer to the Receiver General.

(2) The President of the Treasury Board may, where exceptional circumstances render compliance with paragraph (1)(a) or (b) impracticable, extend the time within which public money is required by that paragraph to be deposited.

Evidence of Deposit of Public Money

7. (1) Where a person deposits public money with the Bank of Canada or one of its agencies pursuant to paragraph 6(1)(c), he shall obtain from the Bank of Canada or its agency, as the case may be, a deposit receipt for the amount of the deposit in such form as the Receiver General may prescribe.

(2) Where a person deposits public money in a transfer account pursuant to paragraph 6(1)(d), he shall obtain from the chartered bank or fiscal agent in which the transfer account is established, in such form and at such times as the Receiver General may prescribe, a transfer of funds voucher for the amount standing to the credit of the Receiver General in the transfer account payable to the Receiver General.

(3) Where a person deposits public money with a branch of a chartered bank or with a fiscal agent pursuant to paragraph 6(1)(e), he shall obtain from the branch or fiscal agent, as the case may be, a transfer of funds voucher for the amount of the deposit payable to the Receiver General.

Deposit Receipts and Transfer of Funds Vouchers

8. Where a person obtains a deposit receipt or a transfer of funds voucher pursuant to section 7, he shall forthwith transmit the receipt or voucher, together with a statement, in such form as the appropriate Minister may prescribe, to such officer of the department on whose behalf the public money to which the receipt or voucher relates was deposited as the appropriate Minister may designate.

9. Where a transfer of funds voucher is transmitted pursuant to section 8, the department shall forthwith deposit the voucher with the Bank of Canada or one of its agencies and shall obtain from the Bank of Canada or its agency a deposit receipt for the amount of the voucher.

10. Every department on whose behalf public money has been deposited under these Regulations shall transmit to the Receiver General, at such times as the Receiver General directs, all deposit receipts that have been transmitted to it pursuant to section 8 and obtained by it pursuant to section 9, together with a statement in respect thereof in a form prescribed by the Receiver General.

1. These regulations may be cited as the Revenue Trust Account Regulations.

2. The Receiver General, on the request of the appropriate Minister, shall establish for any area and for any purpose an account hereinafter called a "Revenue Trust Account" in the name of a department in a branch of a bank or with such fiscal agent as has been designated by the Minister of Finance.

3. Unless otherwise provided, these regulations, notwithstanding the regulations relating to section 19 of the Financial Administration Act made by Treasury Board Minute T.B. 478542 of November 10, 1954, and the Receipt and Deposit of Public Money Regulations made by Treasury Board Minute T.B. 691190, dated August 27, 1969, apply in any circumstances in which a Revenue Trust Account has been established.

4. Where money has been paid to a public officer in the Northwest Territories or the Yukon Territory or in such other area for which and for a purpose for which the Minister of Finance has authorized the establishment of a Revenue Trust Account, the money may be paid into the Account.

5. Where money has been paid into a Revenue Trust Account for any purpose and is in excess of the amount prescribed for that purpose, the excess amount so paid may be repaid to the person who paid it or his legal representatives.

6. Where money has been paid into a Revenue Trust Account for any purpose and the appropriate Minister is of opinion that

(a) the purpose for which the money has been paid has not been fulfilled, and

(b) no service has been rendered by or on behalf of Her Majesty,

the amount so paid may be repaid to the person who paid it or his legal representatives.

7. Where money has been paid into a Revenue Trust Account for any purpose and the appropriate Minister is of opinion that the purpose for which the money has been paid has been fulfilled, the amount so paid less any money in excess of that required for the purpose shall be deposited to the credit of the Receiver General at least once each week in accordance with the Receipt and Deposit of Public Money Regulations.

8. (1) Where money has been paid into a Revenue Trust Account for any purpose and the appropriate Minister is of opinion that the purpose for which the money has been paid has not been fulfilled but that a service has been rendered by or on behalf of Her Majesty, the appropriate Minister shall refer the matter to the Treasury Board with a statement of the relevant facts.

(2) Where a reference is made to the Treasury Board, pursuant to subsection (1), the Board shall determine the amount, if any, that is to be retained by Her Majesty in respect of any service rendered and the amount so determined shall be deposited to the credit of the Receiver General in accordance with the Receipt and Deposit of Public Money Regulations, and the balance, if any, shall be repaid to the person who paid it or his legal representatives.

Regulations Respecting the Deletion of Debts
Due to Her Majesty and Claims by Her Majesty
that do not Exceed Five Thousand Dollars

Short Title

1. These Regulations may be cited as the Deletion of Debts Regulations.

Interpretation

2. In these Regulations "debts due to Her Majesty" means an obligation or debt due to Her Majesty or a claim by Her Majesty.

Deletion

3. The appropriate Minister may delete from the accounts, in whole or in part, a debt due to Her Majesty that does not exceed two thousand dollars.

4. The Treasury Board, on the recommendation of the appropriate Minister, may delete from the accounts, in whole or in part, a debt due to Her Majesty that exceeds two thousand dollars and does not exceed five thousand dollars.

Regulations Relating to the Public Officers Guarantee Account

1. These regulations may be cited as the Public Officers Guarantee Regulations.

Interpretation

2. In these regulations,

(a) "Account" means the Public Officers Guarantee Account;

(b) "Act" means the Financial Administration Act;

(c) "appropriate Minister" means, with respect to a department or a Crown corporation, the appropriate Minister as defined in the Act, and, with respect to a division or branch of the public service designated by the Treasury Board as a department for the purposes of these regulations, the Minister designated by the Board;

(d) "Crown corporation" means a Crown corporation, as defined in the Act, that is designated by the Treasury Board for the purposes of these regulations;

(e) "defalcation" includes any fraudulent act or omission of a public officer that occasions loss in money or property to

(i) Her Majesty, or
(ii) persons other than Her Majesty, when such money or property was in the custody of the public officer in the course of his official duties.

whether such loss is recovered or not;

(f) "department" means a department, as defined in the Act, and any other division or branch of the public service designated by the Treasury Board as a department for the purposes of these Regulations; and

(g) "public officer" means any person employed in the service of a department or a Crown corporation to which these regulations apply and includes any person who collects or receives public money or is charged with the custody or management of property on behalf of such department or Crown corporation.

Account

3. (1) There is hereby established an account in the Consolidated Revenue Fund to be known as the Public Officers Guarantee Account.

(2) The Account shall be credited with

(a) the balance of the Government Officers Guarantee Fund,
(b) premiums received from departments and Crown corporations as hereinafter provided,
(c) amounts recovered by Her Majesty in respect of payments out of the Account or the Government Officers Guarantee Fund, and
(d) moneys appropriated by Parliament for the purposes of the Account.

(3) The Account shall be charged with payments in respect of defalcations of public officers as hereinafter provided.

(4) The Account shall be administered by the Minister of Finance.

Defalcations

4. Whenever a public officer has reason to believe that there has been a defalcation he shall forthwith notify the appropriate Minister who shall forthwith,

   (a) in consultation with the Deputy Minister of Justice, take such steps as may be necessary to recover the amount of the defalcation, and

   (b) submit to the Treasury Board such information as is known to him in respect of such defalcation.

5. (1) Every public officer by reason of whose defalcation a loss is suffered shall be prosecuted, unless the appropriate Minister, after consultation with the Deputy Minister of Justice, directs that a prosecution shall not be undertaken.

   (2) The appropriate Minister shall submit to the Treasury Board a report in respect of each case under subsection (1)

   (a) in which a prosecution is not undertaken setting forth the reasons therefor, or
   (b) in which a prosecution is undertaken and full restitution is made.

6. (1) Every payment made out of the Account is subject to the prior approval of the Treasury Board and to such terms and conditions as the Treasury Board may prescribe.

   (2) Every application to the Treasury Board for the approval of a payment out of the Account shall be made in writing by the appropriate Minister and shall include the following statements:

   (a) the account or person that has suffered loss;
   (b) the name and position of the public officer by reason of whose defalcation the loss was suffered;
   (c) the amount of the loss;
   (d) the measures taken to effect recovery, the amount recovered, if any, and the probability of further recovery;
   (e) whether prosecution has been undertaken and, if so, the results of the prosecution;
   (f) other action taken to punish or discipline the public officer by reason of whose defalcation the loss was suffered;
   (g) the safeguards adopted to prevent further defalcations under similar circumstances, and
   (h) the legal and other costs incurred in connection with the measures taken to effect recovery.

   (3) An appropriation or revenue or other account that has suffered loss by reason of a defalcation shall, whenever possible, be reimbursed before the close of the fiscal year in which the loss was suffered, and for the purpose of approving payment before the close of the fiscal year, the Treasury Board may waive the requirements of subsection (2), but in such case, the appropriate Minister shall

   (a) submit any statements required by subsection (2) that are not available at the time of application as soon as possible after payment, and
   (b) submit a report on the case containing such information and in such detail as the Treasury Board may require within three months after payment, and quarterly thereafter, until all the statements required by subsection (2) have been submitted.

   (4) The amount of every loss suffered by Her Majesty by reason of a defalcation and the amount of every payment from the Account shall be recovered unless the Deputy Minister of Justice expresses the opinion that no action or no further action is warranted, in which case, the appropriate Minister shall take whatever steps are necessary to have the amount of the loss deleted from the accounts.

(5) Unless the Treasury Board otherwise directs, the legal expenses and other costs incurred in connection with any measures taken to effect recovery of any loss shall be borne by the department or Crown corporation concerned.

Application

7. (1) These regulations apply to the departments to which the Act applies, except

   (a) The Post Office Department, and
   (b) Annuity Representatives, Department of Labour.

(2) These regulations apply to the Crown corporations listed in schedules C and D to the Act, except

   (a) Canadian National Railways,
   (b) Canadian National (West Indies) Steamships, Limited,
   (c) Central Mortgage and Housing Corporation,
   (d) Trans-Canada Air Lines, and
   (e) Canadian Broadcasting Corporation.

(3) For the purposes of these regulations the Office of the Custodian of Enemy Property is designated as a department, and the Secretary of State the appropriate Minister in respect thereof.

General

8. (1) The Minister of Finance shall review annually the state of the Account and shall recommend to the Treasury Board such measures as in his opinion are required to ensure that the Account is sufficient to meet the charges that may be made against it.

(2) A department or Crown Corporation to which these regulations apply shall, whenever required by the Treasury Board, make such payments to the Account by way of premiums or contributions, out of moneys available for the purpose, and comply with such other terms and conditions as the Board may require.

(3) Until the Treasury Board otherwise directs, no premiums or contributions shall be assessed against the departments and Crown corporations to which these regulations apply.

Regulations* Respecting the Issuing of, Accounting for, Repayment and Recovery of Accountable Advances

Short Title

1. These Regulations may be cited as the *Accountable Advances Regulations*.

Interpretation

2. In these Regulations,

"accountable advance" means

(*a*) a sum of money advanced to a person from an appropriation, and

(*b*) a sum of money advanced to a person from the sum of money described in paragraph (*a*)

for which the person is accountable and includes imprest funds and working capital advances administered under an imprest system; (*avance comptable*)

"appropriation" includes a revolving fund; (*crédit*)

"cash" means bank notes and coins; (*espèces*)

"change fund" means cash provided to a cashier or other individual for the purpose of making change; (*fonds d'appoint*)

"collective agreement" has the same meaning as in the *Public Service Staff Relations Act*; (*convention collective*)

"deposit account" means an account with a supplier that is funded by an accountable advance and from which the supplier deducts the value of material as it is shipped; (*compte de dépôt*)

"deputy head" has the same meaning as in the *Public Service Employment Act*; (*sous-chef*)

"employee" means an individual appointed to a position in a department or other portion of the public service of Canada listed in Schedule I to the *Public Service Staff Relations Act*; (*employé*)

"holder or custodian" means the person to whom an accountable advance has been issued or who is responsible for an accountable advance; (*détenteur ou dépositaire*)

"person" means an individual, a corporation, an organization and any branch or division of a department; (*personne*)

"petty cash expenditure" means a disbursement made from a petty cash fund; (*dépense de petite caisse*)

"petty cash fund" means cash kept on hand under an imprest system for the purpose of making small payments in cash; (*fonds de petite caisse*)

"standing advance" means an accountable advance issued in a specified amount for an indeterminate period and replenished to that specific amount each time an accounting for expenditures is made. (*avance permanente*)

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* Pursuant to section 31 of the *Financial Administration Act* [C.R.C. c. 668, as amended by SOR/86-438]

General

3. An individual to whom an accountable advance is issued is personally responsible and accountable for that advance and any loss or shortage in respect of that advance may be recovered from that individual.

Issuing of Advances

4. A deputy head may issue an accountable advance

(*a*) to a person

(i) as a travel, relocation or posting advance where that person is entitled to such an advance pursuant to a contract, a collective agreement or a Treasury Board directive,

(ii) for the purpose of establishing a deposit account where a contract or the customary terms of trade require prepayment for goods or services,

(iii) for the purpose of establishing a change fund,

(iv) for the purpose of establishing a petty cash or other imprest fund,

(v) for the purpose of funding a departmental bank account established pursuant to Part III of the *Cheque Issue Regulations*, or

(vi) for any other purpose where payment has to be made by that person on the receipt of goods or on the rendering of a service and the usual payment facilities are not immediately available or their use would be impractical; and

(*b*) to an employee as an emergency salary advance where the issuing of such an advance is otherwise authorized or required by statute, by a collective agreement or by a Treasury Board directive.

5. An accountable advance issued under these Regulations

(*a*) pursuant to paragraph 4(*a*)(i) or (vi) shall not be issued as a standing advance unless the person to whom the advance is issued is required to incur expenditures or make payments or disbursements in respect thereof on a continuing basis;

(*b*) shall not be issued for any type of payment owing on the termination of employment;

(*c*) for a specific purpose shall not exceed the amount required to cover the expenditures that can reasonably be expected to be made for that purpose;

(*d*) as a standing advance shall not exceed the amount required for expenditures expected to be made from the advance within a fixed period determined on the basis of operational requirements and the turnover of the advance; and

(*e*) for the purpose of establishing a petty cash fund shall not exceed $2000 and no single expenditure from that fund shall exceed $200 without the prior approval of the Treasury Board.

Accounting for Advances

6. (1) The deputy head shall establish and maintain records of all accountable advances issued by him and all expenditures made therefrom.

(2) The records referred to in subsection (1) shall include a separate account receivable for every accountable advance and those accounts receivable shall be controlled by a control account maintained within the principal accounting system of the department.

(3) Every standing advance shall be accounted for by the holder or custodian thereof not later than 10 working days after the end of any month in which expenditures are incurred or, where a standing advance has been used to establish a deposit account required by contract, in accordance with the terms of that contract, and every other accountable advance shall be accounted for not later than 10 working days after the purpose for which the advance was made is fulfilled

(*a*) in the case of an accountable advance issued for the purpose of establishing a petty cash or other imprest fund, by showing that the cash on hand or bank balance plus receipts or paid vouchers equals the amount of the advance; or

(*b*) in all other cases, by submitting receipts or vouchers covering the expenditures made from the advance where proof of payment is required for those expenditures under a Treasury Board directive.

(4) The deputy head shall at the end of every fiscal year

(*a*) require every holder or custodian of a standing advance to provide, within 30 days after the end of the fiscal year, written confirmation of the amount of the advance and his continuing responsibility therefor; and

(*b*) provide to the Receiver General such reports and certificates in respect of all accountable advances as may be required for the purposes of the Public Accounts.

Repayment and Recovery of Advances

7. (1) The unexpended balance of any accountable advance, other than a standing advance, shall be repaid to the department by the holder or custodian thereof not later than 10 working days after the purpose for which the advance was made has been fulfilled, unless the Treasury Board has authorized recovery by deduction from salary or wages or by deduction from a subsequent advance.

(2) Notwithstanding subsection (1), where the deputy head has issued an accountable advance, he may at any time, by notice in writing to the holder or custodian of the advance, demand an accounting thereof and repayment of any unexpended balance and the holder or custodian shall, not later than 30 days after receiving such notice, provide an accounting and make the repayment.

8. (1) An accountable advance or any part thereof that is required to be repaid shall be repaid in full by the holder or custodian thereof in a single payment.

(2) An accountable advance or any part thereof that is to be recovered by a department shall, wherever possible, be recovered in full in a single payment.

Regulations* Respecting the Destruction of Cheques and Other Instruments After Payment

Short Title

1. These Regulations may be cited as the *Destruction of Paid Instruments Regulations*.

Interpretation

2. (1) In these Regulations,

"departmental bank account" means an account established in a financial institution in accordance with the authorization of the Treasury Board given pursuant to Part III of the *Cheque Issue Regulations*; (*compte de banque du ministère*)

"media" means magnetic tapes, disks or diskettes; (*support*)

"paid instrument" means a payment instrument or settlement instrument that has been paid; (*effet payé*)

"payment instrument" means

(*a*) a cheque or other negotiable instrument drawn by or on behalf of the Receiver General,

(*b*) a cheque or other negotiable instrument drawn on a departmental bank account, and

(*c*) a special warrant drawn on the Receiver General pursuant to subsection 135(2) of the *Unemployment Insurance Act, 1971*,

and includes instruments in the form of media; (*effet de paiement*)

"Receiver General" means the Receiver General for Canada; (*receveur général*)

"settlement instrument" means a non-negotiable instrument, other than one in the form of media, drawn by or on behalf of the Receiver General to effect a settlement between departments. (*effet de règlement*)

Application

3. These Regulations apply to paid instruments.

Custody and Retention

4. The Receiver General or the appropriate Minister of a department shall be responsible for the care and custody of any paid instrument that is delivered into his custody and shall retain the instrument until it is destroyed in accordance with section 6.

5. Where a paid instrument referred to in section 4 is in the form of media, the data contained therein shall be reproduced on microform or in printed form for retention until the microform or printed form of the instrument is destroyed in accordance with section 6 and the media may be reused after the reproduction if the data contained therein has been erased.

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* Pursuant to section 29(2) of the *Financial Administration Act* [SOR/78-199, as amended by SOR/86-650]

Destruction

6. Subject to section 7, at any time during the seventh year after a paid instrument has been delivered into the custody of the Receiver General or the appropriate Minister of a department, the Receiver General or the appropriate Minister, as the case may be, shall destroy, by shredding, pulping, burning or other means,

(*a*) the original paid instrument where the instrument is not in the form of media; and

(*b*) the microform or printed form of a paid instrument referred to in section 5.

7. Where, in the opinion of the Receiver General or the appropriate Minister of a department, a paid instrument or a reproduction thereof made in accordance with section 5 is required for the purpose of any litigation, inquiry, investigation or other examination, the Receiver General or the appropriate Minister shall delay the destruction of the instrument until it is no longer needed for that purpose.

Legislation

Interpretation Act

R.S., c. I-23

amended by

c. 10, 29 (2nd Supp.)
1972, c. 17
1974-75-76, cc. 16, 19
1977-78, c. 22
1978-79, c. 11

WARNING NOTE

Users of this consolidation, which includes amendments to March 8, 1979, are reminded that it is prepared for convenience of reference only and that, as such, it has no official sanction.

CHAPTER I-23

An Act respecting the interpretation of statutes

SHORT TITLE

Short title

1. This Act may be cited as the *Interpretation Act*. 1967-68, c. 7, s. 1.

INTERPRETATION

Definitions

2. (1) In this Act

"Act" — "Act" means an Act of the Parliament of Canada;

"enact" — "enact" includes to issue, make or establish;

"enactment" — "enactment" means an Act or regulation or any portion of an Act or regulation;

"public officer" — "public officer" includes any person in the public service of Canada

(*a*) who is authorized by or under an enactment to do or enforce the doing of an act or thing or to exercise a power, or

(*b*) upon whom a duty is imposed by or under an enactment;

"regulation" — "regulation" includes an order, regulation, order in council, order prescribing regulations, rule, rule of court, form, tariff of costs or fees, letters patent, commission, warrant, proclamation, by-law, resolution or other instrument issued, made or established

(*a*) in the execution of a power conferred by or under the authority of an Act, or

(*b*) by or under the authority of the Governor in Council;

"repeal" — "repeal" includes revoke or cancel.

Expired enactment

(2) For the purposes of this Act, an enactment that has expired or lapsed or otherwise ceased to have effect shall be deemed to have been repealed. 1967-68, c. 7, s. 2.

APPLICATION

Application

3. (1) Every provision of this Act extends and applies, unless a contrary intention appears, to every enactment, whether enacted before or after the commencement of this Act.

Application to this Act

(2) The provisions of this Act apply to the interpretation of this Act.

Rules of construction not excluded

(3) Nothing in this Act excludes the application to an enactment of a rule of construction applicable thereto and not inconsistent with this Act. 1967-68, c. 7, s. 3.

ENACTING CLAUSE OF ACTS

Enacting clause

4. (1) The enacting clause of an Act may be in the following form:

"Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:".

Order of clauses

(2) The enacting clause of an Act shall follow the preamble, if any, and the various provisions within the purview or body of the Act shall follow in a concise and enunciative form. 1967-68, c. 7, s. 4.

OPERATION

Royal Assent

Royal assent and date of commencement

5. (1) The Clerk of the Parliaments shall endorse on every Act, immediately after the title thereof, the day, month and year when the Act was assented to in Her Majesty's name; such endorsement shall be taken to be a part of the Act, and the date of such assent shall be the

date of the commencement of the Act, if no other date of commencement is therein provided.

Commencement provision

(2) Where an Act contains a provision that the Act or any portion thereof is to come into force on a day later than the date of assent to the Act, such provision shall be deemed to have come into force on the date of assent to the Act.

Commencement when no date fixed

(3) Where an Act provides that certain provisions thereof are to come or shall be deemed to have come into force on a day other than the date of assent to the Act, the remaining provisions of the Act shall be deemed to have come into force on the date of assent to the Act. 1967-68, c. 7, s. 5.

Day Fixed for Commencement or Repeal

Operation when date fixed for commencement or repeal

6. (1) Where an enactment is expressed to come into force on a particular day, it shall be construed as coming into force upon the expiration of the previous day; and where an enactment is expressed to expire, lapse or otherwise cease to have effect on a particular day, it shall be construed as ceasing to have effect upon the commencement of the following day.

When no date fixed

(2) Every enactment that is not expressed to come into force on a particular day shall be construed as coming into force

(*a*) in the case of an Act, upon the expiration of the day immediately before the day the Act was enacted;

(*b*) in the case of a regulation of a class that is not exempted from the application of subsection 5(1) of the *Statutory Instruments Act*, upon the expiration of the day immediately before the day the regulation was registered pursuant to section 6 of that Act; and

(*c*) in the case of a regulation of a class that is exempted from the application of subsection 5(1) of the *Statutory Instruments Act*, upon the expiration of the day immediately before the day the regulation was made. R.S., c. I-23, s. 6; R.S., c. 29(2nd Supp.), s. 1.

Regulation Prior to Commencement

Preliminary proceedings

7. Where an enactment is not in force and it contains provisions conferring power to make regulations or do any other thing, that power may, for the purpose of making the enactment effective upon its commencement, be exercised at any time before its commencement, but a regulation so made or a thing so done has no effect until the commencement of the enactment except in so far as may be necessary to make the enactment effective upon its commencement. 1967-68, c. 7, s. 7.

Territorial Operation

Territorial operation

8. (1) Every enactment applies to the whole of Canada, unless it is otherwise expressed therein.

Amending enactment

(2) Where an enactment that does not apply to the whole of Canada is amended, no provision in the amending enactment applies to any part of Canada to which the amended enactment does not apply, unless it is therein provided that the amending enactment applies to such part of Canada or to the whole of Canada.

Extra-territorial operation

(3) Every Act of the Parliament of Canada now in force enacted prior to the 11th day of December 1931 that in terms or by necessary or reasonable implication was intended, as to the whole or any part thereof, to have extra-territorial operation, shall be construed as if at the date of its enactment the Parliament of Canada then had full power to make laws having extra-territorial operation as provided by the *Statute of Westminster, 1931*. R.S., c. 107, s. 2; 1967-68, c. 7, s. 8.

RULES OF CONSTRUCTION

Private Acts

Provisions in private Acts

9. No provision in a private Act affects the rights of any person, except only as therein mentioned or referred to. 1967-68, c. 7, s. 9.

Law Always Speaking

Law always speaking

10. The law shall be considered as always speaking, and whenever a matter or thing is expressed in the present tense, it shall be applied to the circumstances as they arise, so that effect may be given to the enactment and every part thereof according to its true spirit, intent and meaning. 1967-68, c. 7, s. 10.

Enactments Remedial

Enactments deemed remedial

11. Every enactment shall be deemed remedial, and shall be given such fair, large and liberal construction and interpretation as best ensures the attainment of its objects. 1967-68, c. 7, s. 11.

Preambles and Marginal Notes

Preamble

12. The preamble of an enactment shall be read as a part thereof intended to assist in explaining its purport and object. 1967-68, c. 7, s. 12.

Marginal notes

13. Marginal notes and references to former enactments in an enactment after the end of a section or other division thereof form no part of the enactment, but shall be deemed to have been inserted for convenience of reference only. 1967-68, c. 7, s. 13.

Application of Definitions

Application of interpretation provisions

14. (1) Definitions or rules of interpretation contained in an enactment apply to the construction of the provisions of the enactment that contain those definitions or rules of interpretation, as well as to the other provisions of the enactment.

Interpretation sections subject to exceptions

(2) Where an enactment contains an interpretation section or provision, it shall be read and construed

(*a*) as being applicable only if the contrary intention does not appear, and

(*b*) as being applicable to all other enactments relating to the same subject-matter unless the contrary intention appears. 1967-68, c. 7, s. 14.

Words in regulations

15. Where an enactment confers power to make regulations, expressions used in the regulations have the same respective meanings as in the enactment conferring the power. 1967-68, c. 7, s. 15.

Her Majesty

Her Majesty not bound or affected unless stated

16. No enactment is binding on Her Majesty or affects Her Majesty or Her Majesty's rights or prerogatives in any manner, except only as therein mentioned or referred to. 1967-68, c. 7, s. 16.

Proclamations

Proclamation

17. (1) Where an enactment authorizes the issue of a proclamation, the proclamation shall be understood to be a proclamation of the Governor in Council.

Proclamation to be issued on advice

(2) Where the Governor General is authorized to issue a proclamation, the proclamation shall be understood to be a proclamation issued under an order of the Governor in Council, but it is not necessary to mention in the proclamation that it is issued under such order.

Date of proclamation

(3) Where the Governor in Council has authorized the issue of a proclamation, the proclamation may purport to have been issued on the day its issue was so authorized, and the day on which it so purports to have been issued shall be deemed to be the day on which the proclamation takes effect.

Judicial notice of proclamation

(4) Where an enactment is expressed to come into force on a day to be fixed by proclamation, judicial notice shall be taken of the issue of the proclamation and the day fixed thereby without being specially pleaded. 1967-68, c. 7, s. 17.

Oaths

Administration of oaths

18. (1) Where by an enactment or by a rule of the Senate or House of Commons, evidence under oath is authorized or required to be taken, or an oath is authorized or directed to be made, taken or administered, the oath may be administered, and a certificate of its having been made, taken or administered may be given by any one authorized by the enactment or rule to take the evidence, or by a judge of any court, a notary public, a justice of the peace, or a commissioner for taking affidavits, having authority or jurisdiction within the place where the oath is administered.

Where justice of peace empowered

(2) Where power is conferred upon a justice of the peace to administer an oath or affirmation, or to take an affidavit or declaration, the power may be exercised by a notary public or a commissioner for taking oaths. 1967-68, c. 7, s. 18.

Reports to Parliament

Reports to Parliament

19. Where an Act requires a report or other document to be laid before Parliament and, in compliance with the Act, a particular report or document has been laid before Parliament at a session thereof, nothing in the Act shall be construed as requiring the same report or document to be laid before Parliament at any subsequent session thereof. 1967-68, c. 7, s. 19.

Corporations

Powers vested in corporations

20. (1) Words establishing a corporation shall be construed

(*a*) to vest in the corporation power to sue and be sued, to contract and be contracted

with by its corporate name, to have a common seal and to alter or change it at pleasure, to have perpetual succession, to acquire and hold personal property or movables for the purposes for which the corporation is established and to alienate the same at pleasure;

(*b*) in the case of a corporation having a name consisting of an English and a French form or a combined English and French form, to vest in the corporation power to use either the English or the French form of its name or both forms and to show on its seal both the English and French forms of its name or have two seals, one showing the English and the other showing the French form of its name;

(*c*) to vest in a majority of the members of the corporation the power to bind the others by their acts; and

(*d*) to exempt from personal liability for its debts, obligations or acts such individual members of the corporation as do not contravene the provisions of the enactment establishing the corporation.

Corporate name

(2) Where an enactment establishes a corporation and in each of the English and French versions of the enactment the name of the corporation is in the form only of the language of that version, the name of the corporation shall consist of the form of its name in each of the versions of the enactment.

Banking business

(3) No corporation shall be deemed to be authorized to carry on the business of banking unless such power is expressly conferred upon it by the enactment establishing the corporation. 1967-68, c. 7, s. 20.

Majority and Quorum

Majorities

21. (1) Where an act or thing is required or authorized to be done by more than two persons, a majority of them may do it.

Quorum of board, court, commission, etc.

(2) Where an enactment establishes a board, court, commission or other body consisting of three or more members (in this section called an "association"),

(*a*) at a meeting of the association, a number of members of the association equal to

(i) at least one-half of the number of members provided for by the enactment, if that number is a fixed number, and

(ii) if the number of members provided for by the enactment is not a fixed number but is within a range having a maximum or minimum, at least one-half of the number of members in office if that number is within the range,

constitutes a quorum;

(*b*) an act or thing done by a majority of the members of the association present at a meeting, if the members present constitute a quorum, shall be deemed to have been done by the association; and

(*c*) a vacancy in the membership of the association does not invalidate the constitution of the association or impair the right of the members in office to act, if the number of members in office is not less than a quorum. 1967-68, c. 7, s. 21.

Appointment, Retirement and Powers of Officers

Public officers hold office during pleasure

22. (1) Every public officer appointed before, on or after the 1st day of September 1967, by or under the authority of an enactment or otherwise, shall be deemed to have been appointed to hold office during pleasure only, unless it is otherwise expressed in the enactment or in his commission or appointment.

Effective day of appointments

(2) Where an appointment is made by instrument under the Great Seal, the instrument may purport to have been issued on or after the day its issue was authorized, and the day on which it so purports to have been issued shall be deemed to be the day on which the appointment takes effect.

Appointment or engagement otherwise than under Great Seal

(3) Where in any enactment there is authority to appoint a person to a position or to engage the services of a person, otherwise than by instrument under the Great Seal, the instrument of appointment or engagement may be expressed to be effective on or after the day on which such person commenced the performance of the duties of the position or commenced the performance of the services, and the day on which it is so expressed to be effective, unless that day is more than sixty days before the day on which the instrument is issued, shall be deemed to be the day on which the appointment or engagement takes effect.

Remuneration

(4) Where a person is appointed to an office, the appointing authority may fix, vary or terminate his remuneration.

Commencement of appointments or retirements

(5) Where a person is appointed to an office effective on a specified day, or where the appointment of a person is terminated effective on a specified day, the appointment or termination, as the case may be, shall be deemed to have been effected immediately upon the expiration of the previous day. 1967-68, c. 7, s. 22.

Implied powers respecting public officers

23. (1) Words authorizing the appointment of a public officer to hold office during pleasure include the power of

(*a*) terminating his appointment or removing or suspending him,

(*b*) re-appointing or reinstating him, and

(*c*) appointing another in his stead or to act in his stead,

in the discretion of the authority in whom the power of appointment is vested.

Powers of acting Minister, successor or deputy

(2) Words directing or empowering a Minister of the Crown to do an act or thing, or otherwise applying to him by his name of office, include a Minister acting for him, or, if the office is vacant, a Minister designated to act in the office by or under the authority of an order in council, and also his successors in the office, and his or their deputy, but nothing in this subsection shall be construed to authorize a deputy to exercise any authority conferred upon a Minister to make a regulation as defined in the *Statutory Instruments Act*.

Successors to and deputy of public officer

(3) Words directing or empowering any other public officer to do any act or thing, or otherwise applying to him by his name of office, include his successors in the office and his or their deputy.

Powers of holder of public office

(4) Where a power is conferred or a duty imposed on the holder of an office as such, the power may be exercised and the duty shall be performed by the person for the time being charged with the execution of the powers and duties of the office. R.S., c. I-23, s. 23; R.S., c. 29(2nd Supp.), s. 1.

Evidence

Documentary evidence

24. (1) Where an enactment provides that a document is evidence of a fact without anything in the context to indicate that the document is conclusive evidence, then, in any judicial proceedings, the document is admissible in evidence and the fact shall be deemed to be established in the absence of any evidence to the contrary.

Queen's Printer

(2) Every copy of an enactment having printed thereon what purports to be the name or title of the Queen's Printer and Controller of Stationery or the Queen's Printer shall be deemed to be a copy purporting to be printed by the Queen's Printer for Canada. 1967-68, c. 7, s. 24; 1968-69, c. 28, s. 105.

Computation of Time

Time limits and holidays

25. (1) Where the time limited for the doing of a thing expires or falls upon a holiday, the thing may be done on the day next following that is not a holiday.

Clear days

(2) Where there is a reference to a number of clear days or "at least" a number of days between two events, in calculating the number of days there shall be excluded the days on which the events happen.

Not clear days

(3) Where there is a reference to a number of days, not expressed to be clear days, between two events, in calculating the number of days there shall be excluded the day on which the first event happens and there shall be included the day on which the second event happens.

Beginning and ending of prescribed periods

(4) Where a time is expressed to begin or end at, on or with a specified day, or to continue to or until a specified day, the time includes that day.

After specified day

(5) Where a time is expressed to begin after or to be from a specified day, the time does not include that day.

Within a time

(6) Where anything is to be done within a time after, from, of or before a specified day, the time does not include that day.

Calculation of a period of months after or before a specified day

(7) Where there is a reference to a period of time consisting of a number of months after or before a specified day, the number of months shall be counted from, but not so as to include, the month in which the specified day falls, and the period shall be reckoned as being limited by and including

(*a*) the day immediately after or before the specified day, according as the period follows or precedes the specified day; and

(*b*) the day in the last month so counted having the same calendar number as the specified day, but if such last month has no

day with the same calendar number, then the last day of that month.

Time of the day

(8) Where there is a reference to time expressed as a specified time of the day, the time shall be taken to mean standard time.

Time when specified age attained

(9) A person shall be deemed not to have attained a specified number of years of age until the commencement of the anniversary, of the same number, of the day of his birth. 1967-68, c. 7, s. 25.

Miscellaneous Rules

Reference to magistrate, etc.

26. (1) Where anything is required or authorized to be done by or before a judge, magistrate, justice of the peace, or any functionary or officer, it shall be done by or before one whose jurisdiction or powers extend to the place where such thing is to be done.

Ancillary powers

(2) Where power is given to a person, officer or functionary, to do or enforce the doing of any act or thing, all such powers shall be deemed to be also given as are necessary to enable the person, officer or functionary to do or enforce the doing of the act or thing.

Powers to be exercised as required

(3) Where a power is conferred or a duty imposed the power may be exercised and the duty shall be performed from time to time as occasion requires.

Power to repeal

(4) Where a power is conferred to make regulations, the power shall be construed as including a power, exercisable in the like manner, and subject to the like consent and conditions, if any, to repeal, amend or vary the regulations and make others.

Forms

(5) Where a form is prescribed, deviations therefrom, not affecting the substance or calculated to mislead, do not invalidate the form used.

Gender

(6) Words importing male persons include female persons and corporations.

Number

(7) Words in the singular include the plural, and words in the plural include the singular.

Parts of speech and grammatical forms

(8) Where a word is defined, other parts of speech and grammatical forms of the same word have corresponding meanings. 1967-68, c. 7, s. 26.

Offences

Indictable and summary conviction offences

27. (1) Where an enactment creates an offence,

(*a*) the offence shall be deemed to be an indictable offence if the enactment provides that the offender may be prosecuted for the offence by indictment;

(*b*) the offence shall be deemed to be one for which the offender is punishable on summary conviction if there is nothing in the context to indicate that the offence is an indictable offence; and

(*c*) if the offence is one for which the offender may be prosecuted by indictment or for which he is punishable on summary conviction, no person shall be considered to have been convicted of an indictable offence by reason only of having been convicted of the offence on summary conviction.

Criminal Code to apply

(2) All the provisions of the *Criminal Code* relating to indictable offences apply to indictable offences created by an enactment, and all the provisions of the *Criminal Code* relating to summary conviction offences apply to all other offences created by an enactment, except to the extent that the enactment otherwise provides.

Documents similarly construed

(3) In a commission, proclamation, warrant or other document relating to criminal law or procedure in criminal matters

(*a*) a reference to an offence for which the offender may be prosecuted by indictment shall be construed as a reference to an indictable offence; and

(*b*) a reference to any other offence shall be construed as a reference to an offence for which the offender is punishable on summary conviction. 1967-68, c. 7, s. 27.

DEFINITIONS

Definitions

28. In every enactment

"Act"

"Act", as meaning an Act of a legislature, includes an ordinance of the Yukon Territory or of the Northwest Territories;

"bank"

"bank" or "chartered bank" means a bank to which the *Bank Act* applies;

"broadcasting"

"broadcasting" means any radiocommunication in which the transmissions are intended for direct reception by the general public;

"Clerk of the Privy Council" or "Clerk of the Queen's Privy Council"

"Clerk of the Privy Council" or "Clerk of the Queen's Privy Council" means the Clerk of the Privy Council and Secretary to the Cabinet;

"commencement" "commencement", when used with reference to an enactment, means the time at which the enactment comes into force;

"Commonwealth" "Commonwealth", "British Commonwealth", "Commonwealth of Nations" or "British Commonwealth of Nations" means the association of countries named in the schedule, which schedule may be amended from time to time by proclamation of the Governor in Council

(*a*) by adding thereto the name of any country recognized by such proclamation to be a member of the Commonwealth, or

(*b*) by deleting therefrom the name of any country recognized by such proclamation to be no longer a member of the Commonwealth;

and "Commonwealth country" means a country that is a member of the association of such countries;

"Commonwealth and Dependent Territories" "Commonwealth and Dependent Territories" means the several Commonwealth countries and their colonies, possessions, dependencies, protectorates, protected states, condominiums and trust territories;

"county" "county" includes two or more counties united for purposes to which the enactment relates;

"county court" "county court" in its application to the Province of Ontario includes, and in its application to the Province of Newfoundland means, "district court";

"diplomatic or consular officer" "diplomatic or consular officer" includes an ambassador, envoy, minister, charge d'affaires, counsellor, secretary, attache, consul-general, consul, vice-consul, pro-consul, consular agent, acting consul-general, acting consul, acting vice-consul, acting consular agent, high commissioner, permanent delegate, adviser, acting high commissioner, and acting permanent delegate;

"Federal Court" "Federal Court" means the Federal Court of Canada;

"Federal Court—Appeal Division" "Federal Court—Appeal Division" or "Federal Court of Appeal" means that division of the Federal Court of Canada called the Federal Court—Appeal Division or referred to as the Federal Court of Appeal by the *Federal Court Act*;

"Federal Court—Trial Division" "Federal Court—Trial Division" means that division of the Federal Court of Canada so named by the *Federal Court Act*;

"fiscal year" "fiscal year" or "financial year" means, in relation to money provided by Parliament, or the Consolidated Revenue Fund, or the accounts, taxes or finances of Canada, the period beginning on and including the 1st day of April in one year and ending on and including the 31st day of March in the next year;

"Governor" "Governor", "Governor of Canada", or "Governor General" means the Governor General for the time being of Canada, or other chief executive officer or administrator for the time being carrying on the Government of Canada on behalf and in the name of the Sovereign, by whatever title he is designated;

"Governor in Council" "Governor in Council", or "Governor General in Council" means the Governor General of Canada, or person administering the Government of Canada for the time being, acting by and with the advice of, or by and with the advice and consent of, or in conjunction with the Queen's Privy Council for Canada;

"Great Seal" "Great Seal" means the Great Seal of Canada;

"Her Majesty" "Her Majesty", "His Majesty", "the Queen", "the King" or "the Crown" means the Sovereign of the United Kingdom, Canada and Her other Realms and Territories, and Head of the Commonwealth;

"Her Majesty's Realms and Territories" "Her Majesty's Realms and Territories" means all realms and territories under the sovereignty of Her Majesty;

"herein" "herein" used in any section shall be understood to relate to the whole enactment, and not to that section only;

"holiday" "holiday" means any of the following days, namely, Sunday; New Year's Day; Good Friday; Easter Monday; Christmas Day; the birthday or the day fixed by proclamation for the celebration of the birthday of the reigning Sovereign; Victoria Day; Dominion Day; the first Monday in September, designated Labour Day; Remembrance Day; any day appointed by proclamation to be observed as a day of general prayer or mourning or day of public rejoicing or thanksgiving; and any of the following additional days, namely:

(*a*) in any province, any day appointed by proclamation of the lieutenant governor of the province to be observed as a public holiday or as a day of general prayer or

day that is a non-juridical day by virtue of an Act of the legislature of the province, and

(*b*) in any city, town, municipality or other organized district, any day appointed as a civic holiday by resolution of the council or other authority charged with the administration of the civic or municipal affairs of the city, town, municipality or district;

"legislature" "legislature", "legislative council" or "legislative assembly" includes the Lieutenant Governor in Council and the Legislative Assembly of the Northwest Territories, as constituted before the 1st day of September 1905, the Commissioner in Council of the Yukon Territory, and the Commissioner in Council of the Northwest Territories;

"lieutenant governor" "lieutenant governor" means the lieutenant governor for the time being, or other chief executive officer or administrator for the time being, carrying on the government of the province indicated by the enactment, by whatever title he is designated, and, in relation to the Yukon Territory or the Northwest Territories, means the Commissioner thereof;

"lieutenant governor in council" "lieutenant governor in council" means the lieutenant governor, or person administering the government of the province indicated by the enactment, for the time being, acting by and with the advice of, or by and with the advice and consent of, or in conjunction with the executive council of such province and, in relation to the Yukon Territory or the Northwest Territories, means the Commissioner thereof;

"local time" "local time", in relation to any place, means the time observed in that place for the regulation of business hours;

"may" "may" is to be construed as permissive;

"military" "military" shall be construed as relating to all or any part of the Canadian Forces;

"month" "month" means a calendar month;

"now" "now" or "next" shall be construed as having reference to the time when the enactment was enacted;

"oath" "oath" includes a solemn affirmation or declaration, whenever the context applies to any person by whom and case in which a solemn affirmation or declaration may be made instead of an oath; and in like cases the affirmation or declaration may be made instead of an oath; and in like cases the expression "sworn" includes the expression "affirmed" or "declared";

"person" "person" or any word or expression descriptive of a person, includes a corporation;

"proclamation" "proclamation" means a proclamation under the Great Seal;

"province" "province" means a province of Canada, and includes the Yukon Territory and the Northwest Territories;

"radio" or "radiocommunication" "radio" or "radiocommunication" means any transmission, emission or reception of signs, signals, writing, images, sounds or intelligence of any nature by means of electromagnetic waves of frequencies lower than three thousand Gigacycles per second propagated in space without artificial guide;

"regular force" "regular force" means the component of the Canadian Forces that is referred to in the *National Defence Act* as the regular force;

"reserve force" "reserve force" means the component of the Canadian Forces that is referred to in the *National Defence Act* as the reserve force;

"shall" "shall" is to be construed as imperative;

"standard time" "standard time", except as otherwise provided by any proclamation of the Governor in Council which may be issued for the purposes of this definition in relation to any province or territory or any part thereof, means

(*a*) in relation to the Province of Newfoundland, Newfoundland standard time, being three hours and thirty minutes behind Greenwich time,

(*b*) in relation to the Provinces of Nova Scotia, New Brunswick and Prince Edward Island, those parts of the Province of Quebec lying east of the sixty-third meridian of west longitude, and those parts of the Northwest Territories lying east of the sixty-eighth meridian of west longitude, Atlantic standard time, being four hours behind Greenwich time,

(*c*) in relation to those parts of the Province of Quebec lying west of the sixty-third meridian of west longitude, and those parts of the Province of Ontario lying between the ninetieth and the sixty-eighth meridians of west longitude, Southampton Island and the islands adjacent to Southampton Island, and that part of the

and the eighty-fifth meridians of west longitude, eastern standard time, being five hours behind Greenwich time,

(*d*) in relation to that part of the Province of Ontario lying west of the ninetieth meridian of west longitude, the Province of Manitoba, and that part of the Northwest Territories, except Southampton Island and the islands adjacent to Southampton Island, lying between the eighty-fifth and the one hundred and second meridians of west longitude, central standard time, being six hours behind Greenwich time,

(*e*) in relation to the Province of Saskatchewan, the Province of Alberta, and that part of the Northwest Territories lying west of the one hundred and second meridian of west longitude, mountain standard time, being seven hours behind Greenwich time,

(*f*) in relation to the Province of British Columbia, Pacific standard time, being eight hours behind Greenwich time, and

(*g*) in relation to the Yukon Territory, Yukon standard time, being nine hours behind Greenwich time;

"statutory declaration"

"statutory declaration" means a solemn declaration made by virtue of the *Canada Evidence Act*;

"superior court"

"superior court" means

(*a*) in the Province of Ontario, Nova Scotia, Prince Edward Island or Newfoundland, the Supreme Court of the Province,

(*b*) in the Province of Quebec, the Court of Appeal, and the Superior Court in and for the Province,

(*c*) in the Province of British Columbia, the Court of Appeal and the Supreme Court of the Province,

(*d*) in the Province of Manitoba, Saskatchewan, Alberta or New Brunswick, the Court of Appeal for the Province and the Court of Queen's Bench for the Province,

(*e*) in the Yukon Territory or the Northwest Territories, the Supreme Court thereof,

and includes the Supreme Court of Canada and the Federal Court of Canada;

"sureties"

"sureties" means sufficient sureties, and the expression "security" means sufficient security; and, whenever these words are used, one person is sufficient therefor, unless otherwise expressly required;

"telecommunication"

"telecommunication" means any transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual or other electromagnetic system;

"two justices"

"two justices" means two or more justices of the peace, assembled or acting together;

"United Kingdom"

"United Kingdom" means the United Kingdom of Great Britain and Northern Ireland;

"United States"

"United States" means the United States of America;

"writing"

"writing", or any term of like import, includes words printed, typewritten, painted, engraved, lithographed, photographed, or represented or reproduced by any mode of representing or reproducing words in visible form;

"year"

"year" means any period of twelve consecutive months, except that a reference to a "calendar year" means a period of twelve consecutive months commencing on the first day of January and a reference by number to a Dominical year means the period of twelve consecutive months commencing on the first day of January of that year. R.S., c. I-23, s. 28; R.S., c. 10(2nd Supp.), s. 65; 1972, c. 17, s. 2, 1974-75-76, c. 16, s. 4, c. 19, s. 2; 1978-79, c. 11, s. 10.

Affirmative and negative resolutions

28.1 (1) In every Act

(*a*) the expression "subject to affirmative resolution of Parliament", when used in relation to any regulation, means that such regulation shall be laid before Parliament within fifteen days after it is made or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting and shall not come into force unless and until it is affirmed by a resolution of both Houses of Parliament introduced and passed in accordance with the rules of those Houses;

(*b*) the expression "subject to affirmative resolution of the House of Commons", when used in relation to any regulation, means that such regulation shall be laid before the House of Commons within fifteen days after it is made or, if the House is not then sitting, on any of the first fifteen days next thereafter that the House is sitting and shall not come into force unless and until it is affirmed

by a resolution of the House of Commons introduced and passed in accordance with the rules of that House;

(*c*) the expression "subject to negative resolution of Parliament", when used in relation to any regulation, means that such regulation shall be laid before Parliament within fifteen days after it is made or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting and may be annulled by a resolution of both Houses of Parliament introduced and passed in accordance with the rules of those Houses; and

(*d*) the expression "subject to negative resolution of the House of Commons", when used in relation to any regulation, means that such regulation shall be laid before the House of Commons within fifteen days after it is made or, if the House is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting and may be annulled by a resolution of the House of Commons introduced and passed in accordance with the rules of that House.

Effect of negative resolution

(2) Where a regulation is annulled by a resolution of Parliament or of the House of Commons, as the case may be, it shall be deemed to have been revoked on the day the resolution is passed and any law that was revoked or amended by the making of that regulation shall be deemed to be revived on the day the resolution is passed but the validity of any action taken or not taken in compliance with a regulation so deemed to have been revoked shall not be affected by the resolution. R.S., c. 29(2nd Supp.), s. 1.

"Telegraph"

29. The expression "telegraph" and its derivatives in an enactment or in an Act of the legislature of any province enacted before that province became part of Canada on any subject that is within the legislative powers of the Parliament of Canada, shall be deemed not to include the word "telephone" or its derivatives. 1967-68, c. 7, s. 30.

Common names

30. The name commonly applied to any country, place, body, corporation, society, officer, functionary, person, party or thing, means the country, place, body, corporation, society, officer, functionary, person, party or thing to which the name is commonly applied, although the name is not the formal or extended designation thereof. 1967-68, c. 7, s. 31.

Power to define year

31. Where in an enactment relating to the affairs of Parliament or the Government of Canada there is a reference to a period of a year without anything in the context to indicate beyond doubt whether a fiscal year, or any period of twelve consecutive months or a period of twelve consecutive months commencing on the first day of January is intended, the Governor in Council may prescribe which of such periods of twelve consecutive months shall constitute a year for the purposes of the enactment. 1967-68, c. 7, s. 32.

REFERENCES AND CITATIONS

Citation of enactment

32. (1) In an enactment or document

(*a*) an Act may be cited by reference to its chapter number in the Revised Statutes, by reference to its chapter number in the volume of Acts for the year or regnal year in which it was enacted, or by reference to its long title or short title, with or without reference to its chapter number; and

(*b*) a regulation may be cited by reference to its long title or short title, by reference to the Act under which it was made or by reference to the number or designation under which it was registered by the Clerk of the Privy Council.

Citation includes amendment

(2) A citation of or reference to an enactment shall be deemed to be a citation of or reference to the enactment as amended. 1967-68, c. 7, s. 33.

Reference to two or more parts, etc.

33. (1) A reference in an enactment by number or letter to two or more parts, divisions, sections, subsections, paragraphs, subparagraphs, clauses, subclauses, schedules, appendices or forms shall be read as including the number or letter first mentioned and the number or letter last mentioned.

Reference in enactments to parts, etc.

(2) A reference in an enactment to a part, division, section, schedule, appendix or form shall be read as a reference to a part, division, section, schedule, appendix or form of the enactment in which the reference occurs.

Reference in enactment to subsections, etc.

(3) A reference in an enactment to a subsection, paragraph, subparagraph, clause or subclause shall be read as a reference to a subsection, paragraph, subparagraph, clause or subclause of the section, subsection, paragraph,

subparagraph or clause, as the case may be, in which the reference occurs.

Reference to regulations

(4) A reference in an enactment to regulations shall be read as a reference to regulations made under the enactment in which the reference occurs.

Reference to another enactment

(5) A reference in an enactment by number or letter to any section, subsection, paragraph, subparagraph, clause, subclause or other division or line of another enactment shall be read as a reference to the section, subsection, paragraph, subparagraph, clause, subclause or other division or line of such other enactment as printed by authority of law. 1967-68, c. 7, s. 34.

REPEAL AND AMENDMENT

Power of repeal or amendment reserved

34. (1) Every Act shall be so construed as to reserve to Parliament the power of repealing or amending it, and of revoking, restricting or modifying any power, privilege or advantage thereby vested in or granted to any person.

Amendment or repeal at same session

(2) An Act may be amended or repealed by an Act passed in the same session of Parliament.

Amendment part of enactment

(3) An amending enactment, as far as consistent with the tenor thereof, shall be construed as part of the enactment that it amends. 1967-68, c. 7, s. 35.

Effect of repeal

35. Where an enactment is repealed in whole or in part, the repeal does not

(*a*) revive any enactment or anything not in force or existing at the time when the repeal takes effect;

(*b*) affect the previous operation of the enactment so repealed or anything duly done or suffered thereunder;

(*c*) affect any right, privilege, obligation or liability acquired, accrued, accruing or incurred under the enactment so repealed;

(*d*) affect any offence committed against or a violation of the provisions of the enactment so repealed, or any penalty, forfeiture or punishment incurred under the enactment so repealed; or

(*e*) affect any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment;

and an investigation, legal proceeding or remedy as described in paragraph (*e*) may be instituted, continued or enforced, and the penalty, forfeiture or punishment may be imposed as if the enactment had not been so repealed. 1967-68, c. 7, s. 36.

Repeal and substitution

36. Where an enactment (in this section called the "former enactment") is repealed and another enactment (in this section called the "new enactment") is substituted therefor,

(*a*) every person acting under the former enactment shall continue to act, as if appointed under the new enactment, until another is appointed in his stead;

(*b*) every bond and security given by a person appointed under the former enactment remains in force, and all books, papers, forms and things made or used under the former enactment shall continue to be used as before the repeal so far as they are consistent with the new enactment;

(*c*) every proceeding taken under the former enactment shall be taken up and continued under and in conformity with the new enactment so far as it may be done consistently with the new enactment;

(*d*) the procedure established by the new enactment shall be followed as far as it can be adapted thereto in the recovery or enforcement of penalties and forfeitures incurred, and in the enforcement of rights, existing or accruing under the former enactment or in a proceeding in relation to matters that have happened before the repeal;

(*e*) when any penalty, forfeiture or punishment is reduced or mitigated by the new enactment, the penalty, forfeiture or punishment if imposed or adjudged after the repeal shall be reduced or mitigated accordingly;

(*f*) except to the extent that the provisions of the new enactment are not in substance the same as those of the former enactment, the new enactment shall not be held to operate as new law, but shall be construed and have effect as a consolidation and as declaratory of the law as contained in the former enactment;

(*g*) all regulations made under the repealed enactment remain in force and shall be deemed to have been made under the new enactment, in so far as they are not inconsistent with the new enactment, until they are repealed or others made in their stead; and

Extracts from Part III of the Criminal Code

WARNING NOTE

Users of this consolidation, which includes amendments to June 20, 1985, are reminded that it is prepared for convenience of reference only and that, as such, it has no official sanction.

CHAPTER C-34

PART III

OFFENCES AGAINST THE ADMINISTRATION OF LAW AND JUSTICE

Interpretation

Definitions

107. In this Part

"government"

"government" means

(*a*) the Government of Canada,

(*b*) the government of a province, or

(*c*) Her Majesty in right of Canada or in right of a province;

"office"

"office" includes

(*a*) an office or appointment under the government,

(*b*) a civil or military commission, and

(*c*) a position or employment in a public department;

"official

"official" means a person who

(*a*) holds an office, or

(*b*) is appointed to discharge a public duty;

Corruption and Disobedience

Bribery of judicial officers, etc.

108. (1) Every one who

(*a*) being the holder of a judicial office, or being a member of the Parliament of Canada or of a legislature, corruptly

(i) accepts or obtains,

(ii) agrees to accept, or

(iii) attempts to obtain,

any money, valuable consideration, office, place or employment for himself or another person in respect of anything done or omitted or to be done or omitted by him in his official capacity, or

(*b*) gives or offers corruptly to a person who holds a judicial office, or is a member of the Parliament of Canada or of a legislature, any money, valuable consideration, office, place or employment in respect of anything done or omitted or to be done or omitted by him in his official capacity for himself or another person,

is guilty of an indictable offence and is liable to imprisonment for fourteen years.

Consent of Attorney General

(2) No proceedings against a person who holds a judicial office shall be instituted under this section without the consent in writing of the Attorney General of Canada. 1953-54, c. 51, s. 100.

Bribery of officers

109. Every one who

(*a*) being a justice, police commissioner, peace officer, public officer, or officer of a juvenile court, or being employed in the administration of criminal law, corruptly

(i) accepts or obtains,

(ii) agrees to accept, or

(iii) attempts to obtain,

for himself or any other person any money, valuable consideration, office, place or employment with intent

(iv) to interfere with the administration of justice,

(v) to procure or facilitate the commission of an offence, or

(vi) to protect from detection or punishment a person who has committed or who intends to commit an offence, or

(*b*) gives or offers, corruptly, to a person mentioned in paragraph (*a*) any money, valuable consideration, office, place or employment with intent that the person should do anything mentioned in subparagraph (*a*)(iv), (v) or (vi),

is guilty of an indictable offence and is liable to imprisonment for fourteen years. 1953-54, c. 51, s. 101.

Frauds upon the government

110. (1) Every one commits an offence who

(*a*) directly or indirectly

(i) gives, offers, or agrees to give or offer to an official or to any member of his family, or to any one for the benefit of an official, or

(ii) being an official, demands, accepts or offers or agrees to accept from any person for himself or another person,

a loan, reward, advantage or benefit of any kind as consideration for cooperation, assistance, exercise of influence or an act or omission in connection with

(iii) the transaction of business with or any matter of business relating to the government, or

(iv) a claim against Her Majesty or any benefit that Her Majesty is authorized or is entitled to bestow,

whether or not, in fact, the official is able to cooperate, render assistance, exercise influence or do or omit to do what is proposed, as the case may be;

(*b*) having dealings of any kind with the government, pays a commission or reward to or confers an advantage or benefit of any kind upon an employee or official of the government with which he deals, or to any member of his family, or to any one for the benefit of the employee or official, with respect to those dealings, unless he has the consent in writing of the head of the branch of government with which he deals, the proof of which lies upon him;

(*c*) being an official or employee of the government, demands, accepts or offers or agrees to accept from a person who has dealings with the government a commission, reward, advantage or benefit of any kind directly or indirectly, by himself or through a member of his family or through any one for his benefit, unless he has the consent in writing of the head of the branch of government that employs him or of which he is an official, the proof of which lies upon him;

(*d*) having or pretending to have influence with the government or with a minister of the government or an official, demands, accepts or offers or agrees to accept for himself or another person a reward, advantage or benefit of any kind as consideration for cooperation, assistance, exercise of influence or an act or omission in connection with

(i) anything mentioned in subparagraph (*a*)(iii) or (iv), or

(ii) the appointment of any person, including himself, to an office;

(*e*) offers, gives or agrees to offer or give to a minister of the government or an official a reward, advantage or benefit of any kind as consideration for cooperation, assistance, exercise of influence or an act or omission in connection with

(i) anything mentioned in subparagraph (*a*)(iii) or (iv), or

(ii) the appointment of any person, including himself, to an office; or

(*f*) having made a tender to obtain a contract with the government

(i) gives, offers or agrees to give to another person who has made a tender, or to a member of his family, or to another person for the benefit of that person, a reward, advantage or benefit of any kind as consideration for the withdrawal of the tender of that person, or

(ii) demands, accepts or agrees to accept from another person who has made a tender a reward, advantage or benefit of any kind as consideration for the withdrawal of his tender.

Contractor subscribing to election fund

(2) Every one commits an offence who, in order to obtain or retain a contract with the government, or as a term of any such contract, whether express or implied, directly or indirectly subscribes, gives, or agrees to subscribe or give, to any person any valuable consideration

(*a*) for the purpose of promoting the election of a candidate or a class or party of candidates to the Parliament of Canada or a legislature, or

(*b*) with intent to influence or affect in any way the result of an election conducted for the purpose of electing persons to serve in the Parliament of Canada or a legislature.

Punishment

(3) Every one who commits an offence under this section is guilty of an indictable offence and is liable to imprisonment for five years. 1953-54, c. 51, s. 102.

Breach of trust by public officer

111. Every official who, in connection with the duties of his office, commits fraud or a breach of trust is guilty of an indictable offence and is liable to imprisonment for five years, whether or not the fraud or breach of trust would be an offence if it were committed in relation to a private person. 1953-54, c. 51, s. 103.

Selling or purchasing office

113. Every one who

(*a*) purports to sell or agrees to sell an appointment to or resignation from an office, or a consent to any such appointment or resignation, or receives, or agrees to receive a reward or profit from the purported sale thereof, or

(*b*) purports to purchase or gives a reward or profit for the purported purchase of any such appointment, resignation or consent, or agrees or promises to do so,

is guilty of an indictable offence and is liable to imprisonment for five years. 1953-54, c. 51, s. 105.

Influencing or negotiating appointments or dealing in offices

114. Every one who

(*a*) receives, agrees to receive, gives or procures to be given, directly or indirectly, a reward, advantage or benefit of any kind as consideration for cooperation, assistance or exercise of influence to secure the appointment of any person to an office,

(*b*) solicits, recommends or negotiates in any manner with respect to an appointment to or resignation from an office, in expectation of a direct or indirect reward, advantage or benefit, or

(*c*) keeps without lawful authority, the proof of which lies upon him, a place for transacting or negotiating any business relating to

(i) the filling of vacancies in offices,

(ii) the sale or purchase of offices, or

(iii) appointments to or resignations from offices,

is guilty of an indictable offence and is liable to imprisonment for five years. 1953-54, c. 51, s. 106.

Disobeying a statute

115. (1) Every one who, without lawful excuse, contravenes an Act of the Parliament of Canada by wilfully doing anything that it forbids or by wilfully omitting to do anything that it requires to be done is, unless some penalty or punishment is expressly provided by law, guilty of an indictable offence and is liable to imprisonment for two years.

Attorney General of Canada may act

(2) Any proceedings in respect of a contravention of or conspiracy to contravene an Act mentioned in subsection (1), other than this Act, may be instituted at the instance of the Government of Canada and conducted by or on behalf of that Government. R.S., c. C-34, s. 115; 1974-75-76, c. 93, s. 4.

Misleading Justice

Idem

122.1 (1) Subject to subsection (2), every one who, not being specially permitted, authorized or required by law to make a statement under oath or solemn affirmation, makes such a statement, by affidavit, solemn declaration or deposition or orally before a person who is autorized by law to permit it to be made before him, knowing that the statement is false, is guilty of an offence punishable on summary conviction.

Not applicable

(2) Subsection (1) does not apply to a statement referred to in that subsection that is made in the course of a criminal investigation.

Offences relating to affidavits

126. Every one who

(*a*) signs a writing that purports to be an affidavit or statutory declaration and to have been sworn or declared before him when the writing was not so sworn or declared or when he knows that he has no authority to administer the oath or declaration,

(*b*) uses or offers for use any writing purporting to be an affidavit or statutory declaration that he knows was not sworn or declared, as the case may be, by the affiant or declarant or before a person authorized in that behalf, or

(*c*) signs as affiant or declarant a writing that purports to be an affidavit or statutory declaration and to have been sworn or declared by him, as the case may be, when the writing was not so sworn or declared,

is guilty of an indictable offence and is liable to imprisonment for two years. 1953-54, c. 51, s. 118.

Index to follow at a later date.